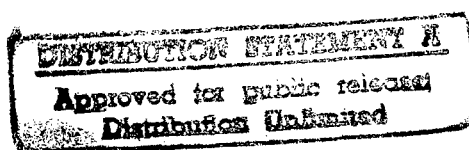




# ***JPRS Report***



# **China**

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# China

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3 December 1991

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## NATIONAL AFFAIRS, POLICY

### Conference on State-Owned Enterprise Reform

92CE0138A Beijing JINGJIXUE DONGTAI  
[ECONOMIC DYNAMICS] in Chinese No 8, 20 Aug 91  
pp 20-23

[Article by Xiao Yu (2556 0827): "Workshop on State-Owned Enterprise Reform and Operating Mechanism Theory Convened in Dalian"]

[Text] A workshop on state-owned enterprise reform and operating mechanism theory was held in Dalian from 8 through 12 July 1991 under joint sponsorship of the Economics Institute of the Chinese Academy of Social Sciences, the editorial board of JINGJI YANJIU [ECONOMIC RESEARCH], and the North East Finance and Economics University. Attendees included nearly 100 people including experts in the field of economic theory, leaders in the economic management sector, delegates from enterprises, and invited authors of selected papers. The delegates conducted discussions on the intensification of enterprise reform and the invigoration of large and medium enterprises.

#### I. Hardships that Large- and Medium-Sized State-Owned Enterprises Face and Reasons For Their Lack of Vitality

The delegates believe that large and medium state-owned enterprises are the bulwark of China's socialist economy. They are of major importance in the invigoration of large and medium enterprises, in the development of the national economy, and in the consolidation of the socialist system. However, China's large and medium enterprises currently lack sufficient vigor; their returns are not high; and they have become a factor limiting the consistent development of the national economy.

A. Hardships that state-owned large and medium enterprises face. Enterprises hardship show up in the following ways: (1) An overly heavy tax burden. Enterprises retain scant profits; they are short of capital; and they have insufficient reserve strength for development. Economic returns have fallen while costs have risen. "Triangular debt" increases steadily, tying up an increasing percentage of working capital. A very large number of large and medium state-owned enterprises show losses. This is true of more than one-third of them, and in some areas the number is greater than 50 percent. (2) Government control is pervasive. In addition to contract goals and plant manager term-of-office goals, there are goals for high quality and improved grade from numerous separate department, as well as various inspections, examinations preliminary to acceptance, training requirements, and examinations that enterprises are hard put to cope with. (3) Command style plan quotas are heavy for some enterprises, and prices of energy and raw and processed materials have gone up while product sale prices are overly low or stagnant. The price rises swallow up enterprises' profits.

Other delegates even felt that in view of the serious hardships of large and medium state-owned enterprises today, the first task should be to "revive" enterprises, never mind "invigorating" them.

B. Reasons for the lack of vitality in large and medium state-owned enterprises. The delegates universally felt that the main reason occasioning a lack of vigor and vitality in large and medium state-owned enterprises is organizational troubles. The enterprise operating mechanism does not meet needs in the operation and development of a planned commodity economy. Policies frequently change and are not well implemented; and the external environment, including the price system, the social security system, and the market structure are uncoordinated.

A look at the external environment for enterprises shows the following: (1) Macroeconomically speaking, insufficient authority has been delegated and insufficient concessions have been made to enterprises. Some delegates noted that enterprises do not have autonomy. Delegated authority has not truly gone into the hands of enterprises. In the process of providing enterprises with autonomy, a combination of soft restraints and hard interference has been used. (2) Separation of government administration and enterprise management. Production authority in large and medium state-owned enterprises is not clear-cut. The functions of the government as the owner and of the managers of state-assets is confused. Under the financial contracting system, the conflict between local government's interests and the interests of central government departments have resulted in a distortion of the operating mechanism, and the improper behavior of enterprises, which has hurt enterprises' production and operation. (3) The present way of managing state-owned assets, the before-tax repayment of loans, and the policy of subsidizing losses does not make enterprises truly become socialist commodity economy organizations that are autonomous in operation, responsible for their own profits and losses, and self-developing. It cannot cause staff members and workers to become the masters of enterprises who both take part in major decisions of enterprises and also share enterprise operating risks.

Looked at internally: (1) problems exist in the internal operating mechanism and management of enterprises. Decision making in enterprises is diffuse, and internal management lacks vitality. Consumption is high; waste is great; and product quality is poor. Technology is backward; operation is not standardized; and labor discipline is lax. Working conditions in factories are poor. No attention is given to the development of new product lines, and the product mix is not promptly readjusted. (2) There is serious overstaffing, more personnel employed than are needed, with the result that enterprise technical progress lags, and updating of work methods is slow. As a result, the surplus work force translates into a product glut and accumulation of products in inventory.

## II. Ways to Intensify Enterprise Reform

Delegates to the workshop felt that the way for large and medium state-owned enterprises to get out of their present hardships lies in the intensification of reform, and they proposed the following lines of thinking about how to intensify enterprise reform:

A. Theoretical ideas on the intensification of reform. Some delegates proposed that the orientation of further enterprise reform should continue to be the separation of ownership and operating rights within the state-owned economy, the state further delegating authority and granting concessions. All that is needed is a complete turnover to enterprises of the enterprise autonomy that should be delegated for an increase in enterprises' retained profits and the enlivening of enterprises.

Some other delegates did not agree with limiting ideas for reform to the delegation of authority and the granting of concessions. They believed that no longer can the theory of the separation of ownership and operating rights within the state-owned economy completely encapsulate theory and practice in reform of the country's enterprises. This thought should form the starting point for the summarization of new circumstances and new experiences to come up with new theoretical ideas for guiding reform of state-owned enterprises. This will require a redefinition of property rights for state-owned assets, putting them under different main economic entities, and clearly delineating the property rights of separate main economic entities. This would change the confusion between government owners' functions and managers' functions, solving at their source the two big problems of the separation of government administration and enterprise management, and enterprises' responsibility for their own profits and losses.

On the issue of how to divide up and define property rights, the following three different ideas were proposed:

First is institution of an enterprise ownership system, assets reverting to enterprise ownership, enterprises making operating decisions and being responsible for increasing the value of assets. Regarding the definition of an enterprise, some delegates termed an enterprise a grassroots level organization engaged in various industrial activities while other delegates applied the term enterprise solely to various kinds of investment corporations.

Second is the founding of juridical property rights, putting into practice a juridical person ownership system in which property rights revert to juridical person members and juridical person organizations. Under the juridical person ownership system, original ownership rights and actual ownership rights of assets would be separated. Original ownership rights of assets would revert to shareholders or to investors, but actual ownership right would be awarded to enterprise juridical persons and to the board of directors that represent them. This would be the basis on which accumulations would revert to the ownership of juridical person members or to a juridical

person organization, no longer belonging to the owners of the original property rights.

Third, the pattern of level-by-level management and the administrative structure network would form the basis for dividing property rights for state-owned assets between the central government and local governments at all levels, thereby changing the level-by-level management of assets to the level-by-level allocation of assets. This would be the basis for a separation of ownership and operating rights within the state-owned economy between the two levels: First ultimate ownership rights for publicly owned assets would be separated from state-owned property rights. The ultimate property rights of governments at all levels would form the basis for the creation of main assets administration entities that largely exercise ownership rights over state-owned assets, various methods being used to turn over state-owned assets directly to principal economic entities engaged in operating them. Second is use of the gradual separation of state-owned assets ultimate ownership rights from juridical person ownership rights as a basis for increasing returns from the operation of state-owned assets, creating enterprise organizations devoted to actual commodity production. In the management of state-owned assets, a change would be made from day-to-day administration to the management of prices.

B. Specific means of deepening enterprise reform. Selection of specific ways to reform enterprises is the key to the deepening of enterprise reform and the enlivening of large and medium enterprises. Controversy among delegates was extremely intense on this issue of the selection of specific ways, most delegates advocating continuation of the contract system and institution of a share system.

First is continuation and perfection of the contract system. The contract system can fashion an operating mechanism that both pressures and motivates enterprises. Despite the system's shortcomings, until such time as a more perfect operating mechanism is found, efforts will have to be made to improve the contract system while examining new operating mechanisms. Workshop delegates proposed ideas for improving the contract system from various angles.

The first idea was a suggestion that the state change from contracting with a single level of an enterprise to contracting at every level, i.e., to apply responsibilities, rights, and benefits level by level all the way down to individuals, every person thereby having a clear idea of his rights, his interests, how he is evaluated, and the rewards he is to receive for excellence and the penalties for poor performance. Level-by-level contracting must be linked to better internal enterprise management to overcome the problem of "substituting contracting for management." When enterprises lack a fair system for supervising remuneration, they cannot divide up enterprise returns on the basis of level-by-level responsibility, thus making difficult the integration of responsibilities, rights, and benefits.

The second idea was a suggestion that single level contracting be changed to bi-level contracting. The first level is state contracting with all staff members and workers in an enterprise, enterprise staff member and worker assemblies or enterprise administration committees acting on behalf of enterprises in working together with those who issue contracts on behalf of government to draw up contract plans and call for contractors' bids. The second level is enterprise staff member and worker assemblies or organizational committees drawing up contract plans and calling for contractors, the contractors becoming responsible to enterprises and enjoying attendant rights after they make a successful bid. Bi-level contracting can both put a damper on contractors' short-term behavior while improving the accuracy of decisions, and can also arouse the sense of participation and a sense of responsibility as masters in their own house of all staff members and workers.

The third idea was a proposal for all personnel contracting based on enterprise board of director inputs into enterprise operation. The specific idea was to establish an enterprise board of directors, which would select a method for calling for bids to select a plan manager or director, and would set annual contract targets and contract goals during his tenure, including profit and tax rates on capital, product quality, the extent of improvement of staff member and worker quality, and technological progress, the plant manager (or director) and staff members and workers being rewarded or punished on the basis of how well contract goals are attained.

The fourth idea was to pin improvement of the contract system on the training and maturation of plant managers, the idea being that no matter the specific methods of contracting used, a plant manager not versed in administration and management, lacking a pioneering spirit, and unable to rely on the rank and file can hardly be expected to attain anticipated goals. By way of helping plant managers mature, management itself would have to be regarded as a specialty, positions as enterprise management specialists established to encourage enterprise managers to show their talent. Some outstanding plant managers could, depending on specific circumstances in an enterprise, select and redirect the enterprise's internal contracting methods.

The delegates held two different views on the issue of how to check and approve contract base figures and incremental increase percentages. One group believed that most of the contract base figures were too low and the speed of increase in contract norms fairly slow in past enterprise contracting. This resulted in a tilt toward enterprises in the distribution of profits, the state's revenues suffering as a result. Therefore, contract base figures and the rate of increase in contract norms should be suitably raised. The other group held an opposite view. It believed that contract norms were excessive. Consequently, enterprises found them difficult to fulfill, and contract quotas might easily fail in attainment. Even if contract norms were met, the enterprise's vitality might

be hurt. A solution should be to extend the contract period in a simplification of contract norms.

Numerous delegates also pointed out various shortcomings of the contract system, such as that it led to difficulties in the flow of available assets, thereby impeding readjustment of the industrial structure; it led to short-term behavior, enterprises tending to distribute retained profits for consumption while neglecting the development of production; and enterprises were responsible only for profits but not for losses.

Second is institution of a shareholder system. The feeling was that a shareholder system could not only avoid the abuses of the contract system, but that it was superior to the contract system in stirring enthusiasm, in the optimum allocation of resources, and in promoting enterprise development. The shareholder system should be made a specific part of China's enterprise reform. Among comrades proposing a shareholder system, ideas differed about the form of a distinctively Chinese shareholder system.

One school of thought favored a circular shareholding system, laterally linked enterprises using the stockholding system to enter entrepreneurial groups, cooperating enterprises within an entrepreneurial block investing in the purchase of shares in core enterprises, dividends issued on the basis of shares held. The core enterprises would invest these funds in turn to become shareholders in enterprises whose stock they would control. Thus, core enterprises would become enterprises controlling shares, the enterprises thus controlled becoming one of the shareholders in the core enterprise. The individual enterprises in a cooperating entrepreneurial bloc would become both juridical persons responsible for their own profits and losses and also collaborators in pursuit of the common welfare. The advantages of this method are as follows: It makes benefit relationships a two-way street, enabling entrepreneurial blocs not only to rely on each other in production and operation, but also becoming a community having a common destiny in terms of economic benefits. Second, so long as there are no extraordinary expenditures, it can bring about the concentration and transfer of capital. Third by controlling shares, core enterprises (which are frequently large and medium state-owned enterprises) can play a leading role in state-owned enterprises.

The second school of thought favored a socialized limited liability share economy in which public ownership is paramount. Since public ownership means that the main entities issuing and buying share certificates are not unlimited, but that different trades are limited, the specific methods may be of three kinds as follows: One is the limited responsibility corporation. Such a corporation does not issue share certificates. Instead, it raises capital, mostly for use in the building of basic facilities. Second is a limited liability corporation in a predominantly public ownership system. This kind of share corporation issues share certificates to raise capital, but the share certificates are sold to a limited clientele. Share

certificates are not sold to private persons. Mostly they are used for basic industries. Third are mixed share corporations in which different forms of ownership are combined. The share certificates of such a corporation may be issued to units under the public ownership system, or individuals may purchase them. They are used mostly for nonbasic industries and ordinary production enterprises not having a bearing on the national economy or the people's livelihood.

The third school of thought favored share system entrepreneurial blocs in which the share system serves as the form of organization for entrepreneurial blocs, different enterprises being organized to form the nucleus of an entrepreneurial bloc. Share system entrepreneurial blocs carry out government plan, are subordinate to general economic management departments, and accept direction from departments in charge of specific industries. Internally, they practice a general manager responsibility system under guidance of a shareholders meeting and a board of directors. The general manager is appointed by the board of directors, and state organs send delegates to board of directors meetings as shareholders of state-owned assets. These delegates may also be elected chairman of the board.

The fourth school of thought favored free shareholding in the establishment of a distinctively Chinese share system. In this system, enterprises, groups, and individuals might all purchase enterprise-issued share certificates, establishing and developing normal share certificate trading.

Among comrades proposing a share system, disagreement also existed as to the time of its implementation. Some comrades felt it unwise to rush headlong into the system out of a desire for quick success. They wanted to create conditions steadily for a gradual transition to a share system. Other comrades felt that conditions were substantially ripe right now for implementation of the share system. They wanted to expand the number of pilot projects and actively promote the system, making it a specific part of the country's enterprise reform at the present stage.

Some delegates did not approve of a share system. They felt that the share system could not be regarded as an outgrowth of the development of a commodity economy, but should be regarded as stemming from the development of capitalism to a high degree. It is simply the selection of private capital from within the purview of capitalist production methods. It does not, nor can it, negate capitalist private ownership. The share system is not in keeping with the socialist orientation of reform, and is likely to give rise to a series of problems such as a weakening of the socialist system of ownership, impeding implementation of the principle of remuneration according to work, and creating speculation in share certificates and various other unhealthy tendencies that hurt political stability and unity.

## Roundup of Price Reform Theories

92CE0023A Tianjin NANKAI JINGJI YANJIU  
[NANKAI ECONOMIC STUDY] in Chinese No 4,  
20 Aug 91 pp 30-37

[Article by Cao Zhenliang (2580 2182 5328) and Wang Zenghua (3769 1073 5478): "Theoretical Research on the Furthering of China's Price Reform"]

[Text] There has been a lot of debate regarding the theory and practice of price reform in China. We group the discussions of the past year into the following seven issues and discuss them below to serve as reference for researchers and policy makers.

### I. How Is Price Reform To Effect a Combination of the Planned Economy With Market Regulation?

With respect to prices, the combination of the planned economy with market regulation takes three forms, i.e.—prices set by the state, prices guided by the state, and prices regulated by the market. There is general agreement on this point. However, there are three viewpoints concerning the proper balance between these three methods of setting prices:

According to the first viewpoint, these three price-setting methods are appropriate for China in its current circumstances, and guidance prices, in particular, represent a breakthrough in the system of price management. The current balance between these three types of prices should be maintained in order to assure the continuity and uniformity of policy.

According to the second viewpoint, the formation of a rational price system depends upon the existence of a rational price formation mechanism. The fact that price management is excessively centralized does not mean that the planned commodity economy poses an objective demand for this degree of centralization, but neither can market-regulated prices be the only price form in the socialist planned commodity economy. A transitional price formation mechanism is characterized by diversified price-setting methods. A unity of opposites between state-set prices and market-regulated prices is the model for price formation mechanisms that we should seek to achieve. The state should set the prices for about one-tenth of all commodities, while the market should be allowed to regulate the prices of the other nine-tenths. Commodities with state-set prices should account for one-third or more of total commodity value, while commodities with market prices should account for two-thirds or less of total commodity value. The relative influence of commodities with state-set prices in the formation of the overall price system should exceed one-half, while the weight of the influence of market-regulated prices should be less than one-half.

According to the third viewpoint, the combination of the three price-setting methods should be split into a short-term model and a long-term target model. Over the short term, planned prices should be the primary form, and we

should seek to establish a balance in which the first and last methods are less influential, while the second method plays the greatest role. In the target model to be achieved over the long term, the prices of the great majority of commodities should be freed up, and market prices should be the dominant form.

How is the combination of the planned economy with market regulation to be reflected in price management? Some comrades have proposed four principles of coexistence: 1) the coexistence of diversified decision-making entities (central government, local governments, enterprises, and individuals); 2) the coexistence of multiple price-setting methods (state-set prices, state guidance prices, and market-regulated prices); 3) the coexistence of various types of regulation and control (compulsory regulation and control, flexible regulation and control, and indirect regulation and control); and 4) the coexistence of diversified forms of price planning (compulsory planning, guidance planning, and reference planning). During the Eighth Five-Year Plan, of the three features listed in parentheses in each of the four items above, the first feature should be the primary one, the second feature should be subordinate to the first, and the third should serve to complement the other two.

## II. The Relationship Between Price Reform and Reform of the Economic System

In the debate regarding the relationship between price reform and reform of the economic system, there are four main viewpoints:

1. The theory of price reform as the key element. This theory holds that in its bare essentials, the reform of China's economic system represents a transition from the former centralized, planned economy to a market economy, and that the price mechanism is a fundamental element of the market economy. Prices, which are built upon the foundation of a market mechanism, are the prerequisite for healthy functioning of the commodity and currency economy. For this reason, economic reform must revolve around price reform. Price reform must be one step out in front of other aspects of reform, and other reforms must be coordinated with and serve the interests of price reform.

2. The theory of enterprise reform as the key element. This theory holds that the key task of economic reform is to resolve the relationship between enterprises and the state, and to change enterprises from appendages of the state into producers and sellers with independent operations which are responsible for their own profits and losses. If the enterprise system (i.e.—the enterprise behavior mechanism) is not taken care of, no matter how rational the price system is, it will be impossible to assure that enterprises will behave in such a way as to achieve long-term goals or that resources will be rationally allocated, because perfection of the enterprise mechanism is prerequisite if prices are to play a role of regulation and guidance. For this reason, economic reform should revolve around enterprise reform, and the

most pressing task is not to bring prices into balance but to first reform the enterprise mechanism. Some scholars have even declared that if reform of the economic system succeeds, it will do so on the basis of enterprise reform, and if it fails, it will do so on the basis of price reform.

3. The theory that reform of the political system must come first. This theory holds that in the current phase of reforms, the most pressing task is neither price reform nor enterprise reform, but reform of the political system. They offer the following reasons: 1) One of the central tasks of China's economic reform is to resolve the problem of lack of separation between government and enterprises, and this is a political issue which transcends economics. Economics cannot resolve this issue. 2) In reality, China's entire problem is that politics and the economy are fused together, and the economy has become an appendage of politics. 3) In the past ten years, economic reform has been out front while political reform has lagged behind, with the result that the farther economic reform has progressed, the more resistance it has encountered. At every critical juncture, reform has bogged down and led to chaos.

4. The theory that price reform and reform of the economic system should proceed simultaneously. This theory holds that in view of the unnatural expansion of interest motives of the various economic entities in China, and considering the extreme imperfection of microeconomic discipline and macroeconomic regulation and control, price reform must not proceed too quickly in isolation from other reforms, but should proceed in step with reform of the overall economic system. Internal enterprise reform should be combined with external reforms, and reform of the motive force mechanism should be combined with reform of operations. The following support is offered for this theory: 1) A perfected market mechanism includes not only an information mechanism characterized by sensitive price signals; it also includes three other mechanisms: a motive force mechanism, for which highly transparent interest relationships (i.e.—enterprises which take responsibility for their own profits and losses) are a prerequisite; a perfected mechanism of microeconomic discipline, which exists within the context of a market that is subject to legal restraints; and a mechanism of macroeconomic regulation and control for which the separation of government and enterprises is prerequisite, and which is achieved by means of comprehensive recourse to various economic levers and legal strictures such as financial, fiscal, and tax policies. The formation of a market mechanism certainly means more than the simple deregulation of prices, reduction of guidance, or expansion of the scope of the market; it means reform of the entire economic system. 2) The formation and perfection of markets and the market mechanism (and of the mechanisms of microeconomic discipline and macroeconomic regulation and control, in particular) are prerequisite if prices are to be freed from state control, and if they are to truly play a regulatory function. In general terms, reform of the overall economic system must be well coordinated.



### III. Debate on Value and Price Theory

Several different viewpoints have arisen within the community of economic theorists regarding the debate on value and price theory.

The first viewpoint holds that the theory of labor value has not improved our understanding of economic life at all, and that this theory should be abandoned in favor of a theory of price without reference to value. The following arguments are offered: 1) commodity value as determined in accordance with the first implication of the concept of socially necessary labor-time cannot be totally validated by the market. 2) Value, as determined in accordance with the second implication of the concept of socially necessary labor-time, has in reality lost any link with labor. 3) Commodity value as determined by the first and second implications together is determined by supply and social demand. This type of value differs in no way from price, and using value to explain price is redundant. 4) Value is not a thing that is directly perceptible to the senses, while prices are something you can put your finger on. Thus, the idea of value is a theoretical proposition. 5) The statement that "commodity prices revolve around value" is an attempt to prove the existence of value; it does not explain price formation, and in reality, it is impossible to prove the existence of value.

The second viewpoint holds that there are both fundamental differences and internal links between the theory of price equilibrium and labor value. The main arguments supporting this viewpoint are as follows:

1. Price equilibrium and labor value have similarities and differences. Points in common: 1) Both are theories related to the law of price movement. The idea of labor value attempts to explain the laws governing regulatory price movement (i.e.—the determination of value). Equilibrium prices are different from market prices; they are in reality a type of value. They are the center around which market prices fluctuate, and they are the law which actually governs price movement. Furthermore, value as determined by labor-time could also be said to be a type of equilibrium price, because the general law of value is the law which governs the regulation of price movement. 2) The factors determining equilibrium price and labor value are the same. Setting aside structural differences and looking at production costs in an abstract sense, it is apparent that both express the relationship between production costs and efficiency. 3) There is no fundamental difference between equilibrium prices and the formation mechanism of labor value. They are both formed through the same process, and the supply and demand relationship plays a decisive role. They differ in the following ways: 1) The value entities are different. The labor value entity represents the materialization of human labor in a commodity, while the equilibrium price entity is the price of various production factors, but the two are not diametrically opposed. 2) The methods of identifying costs are different. The cost of labor value is a type of average cost, while the cost of equilibrium

prices are determined by a marginal method. 3) They reflect different economic relationships. The former reflects a class relationship between employed workers and the capitalist class, between the exploiters and the exploited, while the latter reflects a harmonious economic relationship of interdependence between various owners of resources.

2. Production price is closer than labor value to equilibrium price, and the difference between production price and equilibrium price is clearer than that between production price and labor value. Equilibrium price and production price have the following points in common: 1) Both play a role as laws which govern regulatory price movements. 2) Both are formed through competition between economic sectors and by the transfer of capital and labor capacity between sectors. 3) Both include normal profits. Their differences: 1) They differ in composition. In terms of costs, equilibrium prices include wages, interest, and land rent, but do not include the value of transferred means of production, thus they are equivalent to the C portion of production prices. 2) They reflect different class relationships.

The third viewpoint holds that prices are determined by value in conjunction with supply and demand. The theory of value and the theory of supply and demand share certain common aspects, but value and prices are opposed in some sense. It is one-sided to state simply that "prices should reflect value, and prices and value should be in line with each other." The concept that value determines prices is not comprehensive enough, nor is the concept that supply and demand determine prices. There should be dialectical unity between prices and value, and value should determine prices in conjunction with supply and demand because, in the first place, supply and demand must be in equilibrium if prices and value are to be in line with each other, and in the second place, equilibrium prices are equivalent to value as determined by the second implication of the concept of socially necessary labor-time. Thus, supply and demand in reality are also factors which determine prices; they do so in conjunction with value.

### IV. Discussion Regarding the Statistical Lag in the Price Index

There has been wide-ranging dispute in academic circles regarding the question of which price index to use to measure the rate of inflation. There are four main viewpoints:

Some comrades feel that the current method of using the annual price index (which is arrived at by comparing average prices in two different years) in order to measure the rate of inflation is inappropriate and inaccurate, and that it would be better to arrive at an annual index by comparing consecutive December price indices. They offer the following arguments: 1) In terms of the economic significance of the index, the annual index indicates the percentage of increase in the 12-month average price level from one year to the next, while the annual

inflation rate for a given year (January through December) is the percentage difference between prices from one December to the next. There is a clear difference between these two concepts, and they should not be confused. 2) The annual index is affected not only by inflation in the current year, but also by indirect factors from the previous year. 3) The degree to which the statistical lag causes inflation or deflation in the previous year to affect the annual price index for the current year depends upon the extent of the inflation (deflation) and its timing. The more prices rise (fall), the greater the statistical lag, and the later the price rise (decline), the greater the statistical lag. For this reason, the influence of the statistical lag upon the annual index is completely determined by price movements in the previous year and has nothing to do with price movements in the current year.

Some comrades feel it is very inappropriate, at China's current stage, to use the December index as the annual index. They offer the following reasons: 1) In terms of the economic significance of the index, using the December index as the annual index does not accurately reflect the trends and extent of price changes over the whole year. The price change reflected by the annual index is not the change for a particular month, but the average change in prices over the whole year. Although the indices from two successive Decembers are separated in time by one year, the price change reflected by these indices is a change between two individual months, and not an annual change. 2) In a statistical sense, when used as an annual index, the December index is not very representative and does not accurately reflect the impact of price changes upon the lives of consumers throughout the year. A month is only one point in time over the course of a year, and a monthly index is only one unit in the overall annual index. In statistics, only the mean, the median, and the mode can show the overall nature and pattern of events. It only makes sense to use a monthly index when prices are frozen, relatively stable, or either rising or falling at a constant rate. It makes no sense at this stage, particularly in the midst of price reform. 3) In a political sense, using the December index as the annual index cannot accurately reflect the success of the central government's inflation control policies. 4) In terms of the composition of the index, the statistical lag does not affect the accuracy of the price index. The impact of the statistical lag upon the price index is an objective fact. Prices, by their very nature, undergo change, and there is no statistical lag inherent in prices at any particular period in time. The purpose of analyzing the statistical lag is not to dispute the accuracy of the annual index, but to enable us to do a better job of readjusting prices in the reporting period so that all parties will be able to support the overall price level. 5) In terms of China's current conditions, the country is in the midst of reforms, and it is faced with various problems, including inflation and expanding consumption funds. There are serious imbalances in the total volume and structure of the national economy, and markets could be afflicted by the release of hidden yet powerful inflationary pressures. Under these

circumstances, it is evident that it would be inappropriate to use the December index as the annual index.

Some comrades mention two other points: First, in a strict sense, it is unscientific to speak of a statistical lag. The index for every month from January through November is calculated on a 12-month basis and reaches back to the previous calendar year. The June index includes July through December from the previous year and January through June of the current year. When the price levels of June this year are compared with those of the previous June, price changes which occurred in the previous July through December are naturally included in the index. It is incorrect to say that such price changes represent a statistical lag. Second, as statistical and mathematical procedures, the methods of calculating the price index should be appropriate in any country as long as they are scientific; there is no reason why they should differ between economically developed countries and economically developing countries.

Other comrades make the following points: 1) The month-to-month index, the 12-month index, and annual average index represent three different methods of calculating the price index, and their economic implications are different. 2) Each of these three indices has advantages and disadvantages; no single one is absolutely better or worse than the others. The month-to-month index gives no indication of the annual inflation rate, while neither the 12-month index nor the annual average index reflect price changes in any one given month. 3) The 12-month index and the annual average index serve an irreplaceable function. The annual inflation rate for a given calendar year is best expressed by the December 12-month index, not by the annual average index. Price trends for various years can only be expressed by the annual average index, and not by the December 12-month index. In addition, when using current prices to calculate economic indicators related to economic flow, it is best to use the corresponding annual average index if one intends to eliminate the affect of price changes. When using current prices to calculate several economic indicators related to economic inventory, it is best to use the corresponding December 12-month index if one intends to eliminate the affect of price changes.

#### V. Assessment of Ten Years of Price Reform

There are two basic approaches to the assessment of the past ten years of price reform in China: The first assesses the reforms as a whole, while the second assesses them in stages.

1. Assessing the reforms as a whole. Some comrades state that the ten years of price reform have achieved significant successes, and that the pluses have outweighed the minuses. They feel that the reforms have stimulated development of industry and agriculture, changed the highly centralized price management system, and partially met the requirements of a planned commodity economy. However, there have also been problems:

prices have risen too fast, price differentials have been too great, the dual track system has posed problems, and subsidies have imposed a heavy burden upon the state. Some comrades feel that there are two aspects to price reform: reform of the price management system, and reform of the price system. In the past ten years, the main successes of price reform have been in these two areas. In the area of the price management system, the monolithic system of planned prices has been abandoned in favor of a coexistence of prices set by the state, prices subject to state guidance, and prices subject to market regulation. A single price entity has been abandoned in favor of diversified prices. With respect to the price system, the severely irrational price system has gradually been changed into one somewhat more rational. At the same time, the following problems also exist: 1) Price reform has no firm theoretical foundation or target model. 2) Prices have risen too much since 1985, although this problem is not due only to price reform. 3) Price differentials under the dual track system are too great, which has led to speculation and caused chaos among prices. 4) Prices have been rising in chain reactions, and price parities have returned. 5) The relationship between the readjustment, deregulation, and management of prices has not been handled properly. 6) Price reform has not been effectively coordinated with other aspects of reform. Some comrades have stated that there must be a standard by which to assess the price reforms of the past ten years, and that this standard should include the following three aspects: the first question is whether reform has benefitted society. Has it facilitated social peace and unity? The second question is whether it has benefitted the economy. Has it stimulated continued, stable, and coordinated development of the economy? The third question is whether price reform has benefitted the cause of reform in general. Has it facilitated the furthering of reform of the overall economic system? Measured against these standards, price reform has achieved great success in terms of benefits to society, the economy, and reform, but there are still many problems in the following three areas: 1) Chaotic prices and severe inflation have affected social and economic stability. 2) Irrational price parities have persisted for a long time, the irrational industrial structure has been difficult to change, and the "bottleneck" has been difficult to eliminate, which has affected the healthy development of the national economy. 3) The price formation mechanism and the price management mechanism have not yet been perfected. There are other comrades who say that the price reforms should be assessed by asking whether the price system has been developing in a rational direction. They feel that price reform is only a method of making the price system more rational, that the degree of price rises for various products cannot be the standard by which determine whether prices are rational, and that one can only compare relative interests. In the past ten years, price parities within industry have improved a lot, price parities between industry and agriculture have changed very little, the problem of procurement prices exceeding market prices has grown ever worse, and the phenomenon of reappearing price

parities has come to the fore. There are several reasons for this: 1) Planned prices, which are far too low, have not been readjusted for a long time. 2) During the course of the diversification of prices, it is regular, overpriced commodities for which prices have been deregulated, while it is key, underpriced commodities for which prices have been subject to state management. 3) The excessive expansion of total demand has had an impact.

2. Assessing price reform in stages. Some comrades feel that the ten years of price reform can be split into two stages: During the first six years, the emphasis was upon readjustment, and the positives outweighed the negatives, while in the latter four years, the emphasis was upon deregulation, and the negatives outweighed the positives. There are two main reasons for chaotic prices in the latter years. The first is the deregulation of prices for capital goods and the evolution from a dual track system for capital goods into a system of multiple tracks and "multiple shenanigans." The second reason is the fact that in 1985, prices for agricultural products were deregulated, and a contract procurement system was implemented for grains and cotton. Other comrades feel that price reform, which has continued for more than a decade, can be split into three stages: 1979-84, 1985-88, and 1989 to the present. In the first stage, price reform was relatively successful; it gradually brought price parity relationships between industrial and agricultural products into balance, and it did the same for the relationship between products from primary and processing industries. The relationship between price reform and people's everyday lives was also brought into balance. Although people have been somewhat dissatisfied with price changes, the price reforms have basically been successful. In the second phase, after 1985, the scope and pace of deregulation were excessive, and reforms went out of control. Prices rose too quickly, price parities became imbalanced, and standards of living fell. The third stage has been the period of rectification and improvement. After more than a year, clear successes have been achieved.

## VI. The Issue of Inflation

Discussion of inflation focuses primarily upon the following three areas:

1. There are five main viewpoints regarding the definition of inflation.

1) When there is excess money supply, and currency in circulation exceeds actual requirements, you have inflation. 2) The term inflation refers to rising overall price levels and falling purchasing power which result from excess money supply. 3) Inflation is rising overall price levels and declining purchasing power. 4) The term inflation refers to a steady rise in the overall price level. 5) Inflation is a process of paper currency devaluation and rising prices which is closely linked to the non-economic issuance of paper currency.

There are three main viewpoints regarding the quantitative boundaries of inflation: One viewpoint holds that

rising prices do not constitute inflation unless they occur continuously. A one-time price rise does not constitute inflation. Another viewpoint holds that there is no inflation unless the annual price rise exceeds 3.5 percent. The third viewpoint holds that excess money supply constitutes inflation no matter what the percentage of the excess, be it 0.1 percent, 1 percent, 3.5 percent, 10 percent or 20 percent.

2. There are two main viewpoints regarding the relationship between inflation and economic growth.

Some comrades feel that there is a positive relationship between inflation and economic growth. They offer the following arguments: 1) Uneven development of productivity in different sectors brings about a change in value, which inevitably requires a corresponding readjustment of prices. Price rigidity makes it impossible to readjust prices proportionally; they can only be readjusted structurally. 2) Economic growth is achieved mainly through increased inputs and increased fixed asset investment. 3) A certain amount of inflation facilitates national economic development as well as coordination among the various economic sectors.

Some comrades have stated that there is no necessary link between economic growth and inflation. The positive correlation, which is an objective fact, is abnormal and cannot last for long. They offer the following arguments: 1) An analysis of the situation in 19 developed countries and 37 countries reveals that economic development in the great majority of these countries has depended upon scientific and technological progress. Only two countries feel that there has been a positive correlation between economic growth and inflation. 2) There is no direct cause-and-effect relationship between prices and production volume. Rising prices and economic growth are both products of excess money supply. 3) The relationship between inflation and economic growth is quite complex. It varies depending on the country, the time period, and other circumstances. For this reason, one must carry out detailed analyses in order to arrive at scientific conclusions, and one must not oversimplify matters.

Other comrades feel that although there is no necessary intrinsic link between price levels and the development of production, the two can nevertheless combine in the following five ways: both high, the former low and the latter high, the former high and the latter low, both low, and both basically stable. During the period of improvement and rectification, we should set price levels on the basis of the rate of economic development.

3. There are four basic approaches to controlling inflation.

1) Changing government policies. Comrades who favor this approach feel that inflation is a type of government activity, and that it is brought on by policy decisions of the government. Since inflation is a product of government policies and is the result of conscious or unconscious pursuit of inflationary policies by the government,

government policies must be changed if inflation is to be curbed and eliminated. The key to controlling inflation lies with the government. In particular, policy makers must abandon their illusions about inflation and make a determination to fight inflation; the effort must not be abandoned half-way. In its policy making philosophy, the government should fully consider the harmful effects of inflation upon economic development and reform. This is a fundamental point if correct policies are to be chosen and interference is to be avoided.

2) Adopting retrenchment policies. Most people involved in actual economic work, as well as economic researchers, feel that retrenchment is necessary in order to control inflation. However, opinions differ regarding the effectiveness of retrenchment policies.

First viewpoint: Inflation is caused by government monetary policy. In reality, controlling inflation is a matter of shifting from inflationary policies to retrenchment policies and reducing the money supply.

Second viewpoint: In the retrenchment of total volume, everyone must be treated equally. Later, we can incorporate economic restructuring into our policies, and assure effective supply as we carry out an orderly, structured retrenchment. This is what people are referring to all the time when they say not to paint everything with a broad brush.

Third viewpoint: We must be tenacious during the period of retrenchment. If inflation is to be controlled, we must clamp down on demand so that money supply will decrease and some money can even be retired from circulation. Only in this manner will the momentum of inflation be brought to a halt. Pressures for expansion must be resisted during times of economic contraction. However, we must distinguish between the suppression of final demand and the freeing up of funds movement.

Those espousing the viewpoints listed above all support the policy of retrenchment, but others question the effectiveness of retrenchment.

Fourth viewpoint: Clamping down on the money supply cannot, in the end, suppress inflation, for the following reasons: a) Many factors combine to produce inflation, and inflation caused by such factors as costs, systems, and structures can never be suppressed by clamping down on the money supply. b) Although clamping down on the money supply does serve to suppress growth of overall demand, effective supply is also dampened to the same degree. The gap between supply and demand remains, and the goal of fighting inflation is not achieved.

Fifth viewpoint: China's current economic system has already undergone a fundamental change, and traditional methods of retrenchment are unlikely to have a great effect. For one thing, funds are in extremely short supply, and for another thing, money in circulation and infrastructure investments may remain quite high. The following arguments are offered: a) In the new economic

system, the government cannot back up traditional retrenchment policies with its control of material resources. The central government has lost the ability to control through fiat the expansion or contraction of the national economy. b) The interest distribution mechanism brought about through reform is out of balance. Factors which stimulate expansion exist, but there are no countervailing factors to hold expansion in check. c) Many expansionist policies and measures have accumulated over ten years of reform, and they could work against efforts at retrenchment.

3) Monetary policy aimed at structural readjustment. Many people suggest avoiding treating all issues with a broad brush while clamping down on total demand. They advocate going through banks to implement a structural monetary policy, and they favor using readjustment of credit structure to achieve readjustment of industrial structure.

Some people oppose this suggestion and feel that while banks can effectively clamp down on overall volume, they cannot carry out an effective readjustment of structure. The following arguments are offered: a) Currency and credit are only instruments of circulation or methods of payment, not actual factors of production, so clamping down on currency and credit will fail because of the expansion of commercial credit. b) Currency has no structure. Regardless of what channel or industry by which it is injected into circulation, due to key relations consumer goods purchases made by workers and staff, it inevitably works its way into the market and increases pressure upon the market. c) According to the multiplier acceleration principle, expanding investments, even if structural, will lead to an exponential expansion of incomes and consumption. This in turn will exacerbate the momentum of investments, which could lead to dual inflation. d) Readjusting credit structure can only, to some extent, change the efficiency with which current productive capacity in some industries is used; it cannot spur readjustment of the structure of existing assets, so it cannot achieve industrial balance.

Those who support structural retrenchment make another suggestion: funds, energy resources, and raw materials should be made subject to comprehensive controls. Depending on the enterprise, access to these resources should be either blocked or guaranteed as appropriate. Where called for, certain enterprises should be allowed to fold. This suggestion, too, has met with opposition. Those who disagree feel that this type of structural retrenchment is achieved at the cost of the formation of a highly centralized system, and that although the central government could achieve a structured expansion or contraction of investment, it could not possibly thereby achieve structural balance.

#### 4) Other measures

A) Two opinions regarding raising interest rates. One opinion calls for raising interest rates and implementing positive interest rates. The thought is that raising interest

rates will both eliminate people's anxiety about future inflation and spur people to convert their excess income into savings. Furthermore, it can suppress enterprise demand for funds and investments, and decrease the pressure of overall social demand. This is thought to be a good way to control inflation. According to the other opinion, raising interest rates to control inflation is not very realistic in China because if high interest rates are to effectively suppress demand, the following three preconditions must be met: Interest rates must be relatively flexible, enterprise budgets must be binding, and the market system must be relatively perfected. These conditions do not exist in China.

B) Opinions regarding controlling the dispersal of income and improving the ability of the central government to carry out macroeconomic regulation and control. Those who support such measures feel that the dispersal of national income has caused imbalances in the industrial structure and weakened the ability of the government to carry out regulation and control. If inflation is to be controlled, the trend toward dispersal of income must be suppressed, and the ratio of fiscal revenues to national income must rise. At the same time, the ratio of central government fiscal revenues to total fiscal revenues must rise. Those who disagree feel that historical experience has shown it impossible to create a balanced economic environment by letting the central government have more income, and this approach is questionable under the current circumstances. They offer the following arguments: 1) We do not at the current time have the ability to formulate a scientific economic plan in accordance with the principle of economic equilibrium, nor does a system or structure of authority exist which would enable us to enforce a scientific plan. 2) Within the current distribution setup, short of returning to the old system, readjusting distribution structure in order to increase central government revenues would be of limited use, and using such a method to readjust industrial structure and control inflation would not do much good.

C) Some people advocate furthering reform. The thought is that the basic source of inflation is in the economic system. The existing system has always spurred the government, whether consciously or unconsciously, to use inflationary policies, and it has deprived the government of the ability to control inflation. Since inflation is caused by the system, then it should be resolved by further reform of the system. Internal conflicts within the system must be eliminated, and a basis within the system must be provided for the implementation of economic policy.

This is an analysis of what many comrades have suggested as approaches to this problem. In reality, most comrades favor a comprehensive approach to controlling inflation.

## VII. The Relationship Between Controlling Inflation and Furthering Price Reform

There is general agreement that furthering price reform should be accomplished within the context of the effort to control inflation. However, should we wait until inflation has been brought completely under control before proceeding with price reform, or should the two proceed simultaneously? There are different answers to this question.

The first viewpoint holds that the effort to control inflation requires that the pace of price reform be slowed, but not halted; it must continue forward at an appropriate pace. The pace should be slowed in order to create the necessary conditions for further progress in reform and to reduce the risks of reform to the lowest possible level. It is the program of improvement and rectification which requires that reforms be furthered. The main task of improvement and rectification is to bring total social supply and demand into balance. To achieve this, the expansion of demand must be suppressed, and effective supply must be increased. These two tasks cannot be completed without bringing into play the most effective economic lever of all—prices. Ignoring the current irrationality of the price system and adopting measures to freeze or nearly freeze prices may give the impression of price stability, but production of goods in great demand would stagnate and industrial structure would become more irrational, which would cause greater price distortion and conceal even worse inflation. If, in concert with the program of improvement and rectification, we can carry out price reform in an aggressive yet stable manner, not only would we not impede the achievement of inflation control, we would facilitate and accelerate the achievement of this goal.

The second viewpoint holds that during the period of improvement and rectification, it would be very difficult to halt price reform. They offer the following arguments: 1) We have not yet found a short-term method more effective than raising prices for bringing the enthusiasm of peasants into play, so instead of waiting for declining production of agricultural and sideline products to spur spontaneous price rises, it would be better to take the initiative to raise prices for agricultural and sideline products, especially grains and cotton, in order to encourage production and increase supply. 2) With the serious shortage of basic products, the excessively low prices for basic products (or services) will change sooner or later. Delaying price reform can only postpone difficulties and pressure until a later date, when the costs will be even greater. 3) The price management system is already quite decentralized, and it is unlikely the central government can prevent local governments and enterprises from raising prices.

Advocates of a third point of view, for whom the frame of reference is the effort to readjust and improve the economic structure, state that the distorted price structure has become a barrier to improving economic structure. In the past few years, because prices have remained

basically as distorted as ever, and due to the impact of the system in which local governments take responsibility for their own finances, the state has been unable to achieve several of its objectives, including: strengthening production of products for which demand is strong; accelerating development of energy resources, transportation, and raw materials sectors; and suppressing development of regular processing industries. Although the state has announced the key elements of the current industrial policy, this policy could become a meaningless scrap of paper if the state does not bring distorted price relationships into balance. Local governments and enterprises could continue to maximize their own interests while ignoring the question of what is the best macro-economic allocation of resources.

The fourth viewpoint holds that two basic conditions must exist for prices to rise: First, overall demand must exceed overall supply, and second, the purchasing power of individuals and enterprises must be great enough to sustain relatively large price increases. The drastic rise in price levels of the past few years has been due to the fact that since reforms, at the same time that incomes have become dispersed, long-term credit has expanded and no income-sharing mechanism has been established that would facilitate the readjustment of structure. These price increases cannot be blamed on price reform. However, a lot of talk about price reform in 1988 heightened anticipation of inflation and was one factor which directly touched off a wave of panic buying. For this reason, discussion of price reform must be more sober. We must not surround the issue with so much fanfare or invest so much hope in price reform, but we must not for that reason discontinue it.

There is a fifth viewpoint diametrically opposed to the other four. It holds that inflation and price reform are linked by a thousand strands, that price reform spurs inflation, and that with the current severe inflation, to continue introducing new price reform measures is tantamount to throwing gasoline on the fire.

## Shareholding System in State, Nonstate Enterprises

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[Article by Wei Jie (7614 2638): "The Shareholding System in State, Nonstate Enterprises"]

[Excerpts] In the course of competition, state enterprises and nonstate enterprises often join forces out of their own respective self-interests. Since state enterprises and nonstate enterprises belong to different economies, the only way in which they can join forces effectively is the shareholding system. In other words, they set up a shareholding enterprise in which they both participate. This new variety of shareholding enterprise is different from the shareholding enterprise that is fully state-owned (such as the shareholding enterprises set up by state enterprises and collective enterprises.) Nor is it the

same as the shareholding enterprise that is totally outside state ownership (such as nonstate shareholding enterprises which are set up by private enterprises and the self-employed.) Instead, it is a new kind of shareholding enterprise that is totally unique. Given development trends, this new variety of shareholding enterprise is in for a period of uninterrupted growth in the wake of the development of the new pattern of ownership characterized by the dominance of public ownership and the coexistence of a variety of economies. Accordingly we must pay attention to research on this kind of shareholding enterprise.

#### **The Practical Basis and Significance of State and Non-State Enterprises Setting Up Shareholding Enterprises**

The most important practical basis for the establishment of a shareholding enterprise by state and nonstate enterprises is the presence of an ownership system featuring a variety of economies dominated by public ownership and our decision to fully abide by the laws and principles of a commodity economy and develop a commodity economy dominated by the public economy and supplemented by a nonpublic economy. To put it differently, as long as we adopt a commodity economy and a pattern of ownership featuring a variety of economies dominated by public ownership, state enterprises and nonstate enterprises will inevitably join forces and come together in the course of competition, the medium of association being the shareholding system. This is something that is independent of man's will. As commodity producers and operators allowed to engage in effective competition, both state enterprises and nonstate enterprises have every right to engage in legal competition. In the course of competition, some state enterprises and nonstate enterprises decide to come together and form a shareholding enterprise to gain a competitive edge. They are prompted by considerations of self-interests and a desire to avoid unnecessary losses. Some state enterprises and nonstate enterprises find that their production activities and operations are hampered by the lack of some elements. To obtain certain "bottleneck" elements that expanded reproduction and operations need, these enterprises must necessarily choose the shareholding system, the fastest way to acquire such elements. Therefore, they form a shareholding enterprise as a means of securing the elements they want. Other state enterprises and nonstate enterprises form a shareholding enterprise prompted by considerations of anticipated profits. Yet other state enterprises and nonstate enterprises set up a shareholding enterprise prompted by broad considerations of their future. For instance, they may think that setting up a shareholding enterprise will help improve their social standing and brighten their own development prospects. These enterprises, therefore, put together a shareholding enterprise, motivated by broad considerations of what will be in their interests. In short, in a commodity economy dominated by public ownership where a variety of economies exist, it is inevitable for state enterprises and nonstate enterprises to put together shareholding enterprises out of self-interests.

Shareholding enterprises set up by state and nonstate enterprises show mixed economic attributes. In other words, both elements of the state economy and elements of the nonstate economy can be found in them. This has led some people to think that setting up such a shareholding enterprise is to introduce elements of the nonstate economy into the state enterprise, thereby undermining the state economy. In reality, this new variety of shareholding enterprise aids the development of the state economy. To begin with, returns on that portion of public assets which enter the shareholding enterprise will increase. Otherwise, the state enterprise in question would not have set up the shareholding enterprise in conjunction with its nonstate counterpart in the first place. Second, when a state enterprise puts together a shareholding enterprise with a nonstate enterprise, it effectively injects elements of the state economy into the nonstate economy, which will help regularize and correct the operational behavior of the nonstate enterprise, thereby practically helping the state economy guide the nonstate economy. Third, assuming that the state enterprise is the effective controlling shareholder of the new enterprise, then the nonstate economy becomes an effective supplement of the state economy. The resultant pattern of ownership is truly one that is dominated by public ownership and supplemented by the nonpublic economy. Thus if we consider the issue broadly and at a deeper level, we can see that the new-style shareholding enterprise is a great boost to the development of the state economy.

The fact of the matter is that when we evaluate the shareholding enterprise put together by state and nonstate enterprises, we must not only judge it by what role it plays in the state economy, but also assess it by the criterion of productive forces. In other words, we must ask whether the shareholding enterprise in question will help further productive forces. The reality is that the new shareholding enterprise will do much to promote the development of productive forces. First of all, the new enterprise will stimulate resource circulation powerfully, adjust the economic structure with such circulation, and bring about the highly efficient development of productive forces through structural optimization. In particular, the new variety of shareholding enterprise overcomes the barriers imposed by the ownership system on resource circulation and is better able than other kinds of shareholding enterprise to expedite the development of productive forces through structural optimization. Second, the shareholding enterprise formed by the state and nonstate enterprises is extremely effective in bringing about the reconfiguration of the elements of production so that the elements of production can create new productive forces, thus greatly boosting the development of such forces. In reality, the new kind of shareholding enterprise is an extremely effective innovation. Third, the shareholding enterprise formed by the state and nonstate enterprises is specially adept at bringing together the elements of production within a short period of time so that the scale of production can be expanded in the shortest time possible. This helps the



enterprise regulate supply and demand relations on the market by increasing supply as well as satisfying the demand of the economies of scale promptly, ultimately promoting the development of productive forces by way of effective supply and the economies of scale. Fourth, the new variety of shareholding enterprise enables us to fully separate property ownership from property management. This will help the enterprise enjoy even more decision-making authority, thus satisfying the most basic requirement for fully revitalizing the enterprise. As far as the nonstate enterprise in question is concerned, the shareholding system means that an individual can no longer directly run the enterprise personally or decide its operations and business activities from the perspective of self-interests alone. Thus the shareholding system helps reduce the extent of privateness of the enterprise and expedite the development of productive forces by promoting social justice and social stability. As for the state enterprise, the shareholding system helps clarify the property relations within the enterprise and reduce administrative interference by the government, which, in turn, would help unleash the initiative of all quarters and expedite the development of productive forces.

The above analysis makes it clear we should allow state and nonstate enterprises to put together shareholding enterprises. Their existence and development is inevitable in terms of both the practical basis for their existence and their positive significance. We should take the initiative to embrace it and provide effective guidance rather than being forced to recognize it. Certainly, being the first economic phenomenon in the development of the socialist economy, this kind of shareholding enterprise is beset with a host of problems that need to be addressed on the practical as well as theoretical levels. It is also true that we are not fully prepared theoretically and lack practical experience. However, we must research it diligently and conscientiously. While it possesses the attributes common to other shareholding enterprises, the new variety of shareholding enterprise has its own unique features. Thus we cannot simply apply the existing shareholding model to it. We must regulate it using the usual norms and rules that we use to regulate the shareholding system as a whole. At the same time, we must be mindful of its own special features, improve its internal organizational structure, and handle its various distribution relations and other interests relations properly. [passage omitted]

#### **Constant Improvement of the Shareholding Enterprise**

As a variant of the shareholding enterprise, the shareholding enterprise formed by state and nonstate enterprises shares with other shareholding enterprises the basic requirements for constant improvement. To begin with, we must establish and improve legal procedures for the shareholding enterprise. Clear and sound legal provisions must be made regarding the launching of the shareholding enterprise, the distribution and determination of shares, the enterprise charter, and enterprise changes, including merger, division, dissolution, liquidation, and reorganization. Without a comprehensive body

of clear legal regulations, the shareholding enterprise formed by state and nonstate enterprise will not be able to develop normally.

Second, the organizational setup and internal management of a shareholding enterprise established by state and nonstate enterprises must be constantly improved and regularized. Among other things, this involves sorting out the relations among the different departments and setting up a complete set of accounting practices and an economic responsibility system. The interest relations within a shareholding system are quite complex. If they are not handled properly, the enterprise cannot be revitalized. Since the shareholding enterprise has just come into existence, basically we still do not have a set of mature rules and regulations to deal with these relations. Hence the need to constantly improve the existing rules and regulations in the course of practice. In particular, we need to protect the interests of that part of the enterprise which belongs to the state economy as well as its proper status in the shareholding enterprise to prevent the interests of the public economy from being damaged.

Third, the stock market must be improved and developed to create a good operational basis for the shareholding enterprise established by state and nonstate enterprises. The stock market is both the mechanism of development and the mechanism of restraint for the shareholding enterprise. Divorced from the stock market, the new kind of shareholding enterprise will have difficulty developing normally and effectively. This is what we mean when we say that the stock market is the basis of development for the shareholding enterprise. At present, however, China's stock market is still far from perfect and must be developed as soon as possible. Not only must we write into law the procedures of issuing and trading stocks so as to standardize stock prices, but we must also improve the infrastructure for the stock market without delay to create the necessary conditions for its operation.

Finally, there is a need for the effective macro regulation of the shareholding enterprise founded by state and nonstate enterprises. We develop shareholding enterprises of this kind to further productive forces. We do not develop shareholding enterprises for the sake of developing shareholding enterprises. Therefore, there must be effective macro regulation of the behavior of the shareholding enterprise unfavorable to the development of productive forces. Moreover, the shareholding enterprise established by state and nonstate enterprises operates in a socialist economy. We must regulate its operations in accordance with the demand of the socialist economic system. This includes harmonizing the relations between enterprise workers and the enterprise and coordinating the activities of party and league organs within the enterprise to make the shareholding enterprise an enterprise with socialist characteristics. In short, there must be effective macro regulation of the shareholding enterprise established by state and nonstate enterprises depending on conditions in the real world.



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[Article by Dong Fureng (5516 6534 4356): "Shareholding Cooperative Enterprise—Reform in Enterprise Organizational Form"]

[Text] In the rural economy of coastal areas, nonagricultural industries are rapidly developing in which the family economy, especially in family industries, plays an enormous role. The special advantages of family industries include the following: They are easy to start up with little investment; they absorb surplus rural work force and require low technical expertise; low skilled laborers can easily be employed in them; they adjust to market changes more quickly; and the people who run them have full self-operating rights, clear property rights, and are strongly bound by property. These industries are, therefore, closely related to the interests of those running them. For a fairly long time in the future, family industries will continue to exist but they do have inherent shortcomings. For example, they have an excessively small scale; lack returns of scale; apply technology in a very limited way; have a weak capability of developing new products; have low and unassured product quality; and they are greatly influenced by market fluctuations.

In recent years, nonagricultural industries have developed particularly rapidly in coastal areas, especially those with a larger scale, higher technical expertise, and better product quality run by townships and towns. Enterprises engaging in the "three forms of import processing and compensation trade" have developed still faster. This has gradually made the family industries which have developed relatively rapidly in the Wenzhou area less competitive in the home market and it is very difficult for their products to enter the international market. Owing to insufficient information about the market as well for other reasons, excessive competition and production fluctuations often arise. This harms the family industries themselves and affects market stability. Therefore, reforming the organizational patterns of nonagricultural industrial enterprises has become an objective need.

I think that the reformed organizational patterns of rural nonagricultural industrial enterprises must meet some of the following major demands: 1) Property rights must be clear and unequivocal. 2) They should facilitate the free flow of the elements of production and optimize their organization. 3) It is necessary to separate administration from the enterprise so that the enterprise will have a full self-operating right. 4) Enterprises must be tightly bound by property and should be responsible for their own profits and losses. 5) The enterprises must have returns of scale such as to be favorable for accumulating, introducing and applying new technologies, developing new products, and improving, monitoring, and controlling product quality. 6) It is necessary to handle the relations between fairness and returns better and bring

into play the initiative of enterprise runners, staff, and workers to facilitate the development of socialist elements. In fact, this kind of profitable reform experiment is being tried in various places including Wenzhou, Zhoucun, and Fuyang. Recently, the Rural Reform Experimental Areas Office under the Ministry of Agriculture [MOA] called a "Symposium on Shareholding Cooperative Enterprises in Rural Areas" in Wenzhou. At the meeting, experience in this respect was introduced and enthusiastic discussions were held. I have acquired a better understanding of Wenzhou City's experiment in this respect from the meeting and from on-the-spot observations in some villages in Wenzhou.

In Wenzhou, reform experiments in rural nonagricultural enterprises are generally called development of "shareholding cooperative enterprises." I have learned from on-the-spot investigations that reform of Wenzhou's rural family industries is developing in two directions: The first direction is that industries are run through the joining of shares, thus breaking the limitations of the family scale and gradually abandoning the family-industry enterprise organizational pattern. The second is that, on the basis of retaining family industries, they are organizing joint operating bodies or joint economic bodies. In Wenzhou, people call them "shareholding cooperative main factories." These two kinds of enterprise organizational patterns are now developing and do not yet have a set pattern but their development will overcome the limitations of various patterns of family industries or other limitations. Judging from the fact that the reformed organizational patterns of nonagricultural rural enterprises should meet the major demands mentioned previously, family industries roughly have the conditions but not yet all of them. They need to be gradually improved when their scale is being enlarged in the future. What follows are some brief views.

Judging from enterprises formed in the first direction they, in fact, include several different kinds of enterprises. The first kind is where all enterprise shareholders participate in labor and their share rights are equal. They do not hire any workers or hire only a few. This kind of enterprise is a cooperative enterprise. It is unimportant whether or not it should be called a "shareholding cooperative enterprise" because participants in a cooperative enterprise generally possess share funds. We should not, of course, confuse it with a joint-stock enterprise which raises funds by issuing shares. The second kind is that shareholders hold a majority of shares while staff and workers do not hold shares and even if staff and workers do hold shares, their proportion of the share funds is very small. This kind of enterprise does not follow the regulations laid down by Wenzhou regarding the distribution and use of post-tax profits. The enterprise can be a joint-stock enterprise or a partnership enterprise. For this kind of enterprise, Wenzhou City's regulations regarding "shareholding cooperative enterprises" can serve as a guide for the distribution and use of post-tax profits. The third kind is that

shareholders hold a minority of shares, and staff and workers hold either a few shares or none at all. It is run and managed according to the regulations regarding "shareholding cooperative enterprises" laid down by Wenzhou City. The regulations provide that of the post-tax profits, 50 percent is used for enlarging reproduction and is registered in the names of shareholders, no more than 25 percent are dividends and bonuses, 10 percent is used as a welfare foundation and reward foundation for staff and workers, and 15 percent is accumulated as common funds which can be used for developing production and which must not be registered in the names of staff and workers. There are some other provisions as well. At present, there are not too many enterprises of this kind. The regulations regarding the distribution and use of post-tax profits formulated by Wenzhou City for "shareholding cooperative enterprises" are aimed at helping to enlarge production and prevent shareholders from seeking short-term interests or a distribution of profits. They help look after the interests of staff and workers, condition the income distribution within an enterprise, and guard against widening income gaps. The proposal that the 15 percent of common accumulated funds that cannot be distributed to individuals is intended to gradually increase the enterprise's collective economic sectors and socialist factors. This portion of assets will gradually increase, but its shortcoming lies in the ambiguity about property rights, thus conflicting with the first demand mentioned above. I am thinking whether they can be registered in the names of staff and workers as share funds they hold. To make it easy for shareholders to accept this, we can appropriately reduce wage and bonus proportions in the income of staff and workers and increase the proportions of post-tax share funds obtained from public accumulation and other returns. This may help stimulate the initiative of staff and workers and increase their role and functions in an enterprise. It is possible to further discuss how to determine the nature of these three kinds of enterprises. If they strictly follow the regulations, the elements of cooperation will naturally gradually exist and increase.

In order to strengthen management of "shareholding cooperative enterprises," it is very important for the enterprise accounting system to be improved and strictly followed, otherwise it is completely possible even through the distribution ratio and use of post-tax profits for the items mentioned above, for shareholders and runners of an enterprise to cheat in the accounts or shift profits elsewhere, thus greatly reducing the post-tax profits that could be distributed and used and even making them "nonexistent." In view of this, the regulations mentioned above can only be paper ones and can have no actual binding force on these enterprises.

The joint family industrial bodies formed in the second direction, namely "shareholding cooperative main factory" is an invention with a good deal of significance, though it is rather unstandardized so far as the modern enterprise's organizational pattern is concerned. These

"main factories," which were built less than a year ago, have different patterns and are continually developing and changing. Generally speaking, one main factory is set up in one administrative village or township, hence the phrase "one main factory in one village produces one special product." For family industries in a village, the main factory practices unified guidance and management, uses unified quality standards, conducts unified quality tests and issues certificates accordingly, collects taxes and fixes prices for product sales in a unified way, standardizes account numbers and accounts, unifies trademarks management, and supplies all family industries (called "branch factories" locally) with raw materials, spare parts and components, market information, transportation and sales, accounts settlement, and other services. The share funds of the "main factory" come from joining "branch factories" and partially from township collectives. They include a village's land as an investment or share. This kind of "main factory" differs greatly from the "household operations" generally practiced in Wenzhou in former times. Now, the "main factory" is no longer an empty framework as is a nominal "collective enterprise," but to a certain extent has become an economic entity. Some people say that this kind of joint operating body or joint economic body is a pattern found in the "system of unified management combined with independent management" in nonagricultural industries and that it helps promote the development of the rural collective economy. This makes sense. I carried out an investigation into Ruian City's Xianjiang Plastic Shoes Main Factory and found that it is very well run. Ouhai County's Quxi Town Leather-Making Main Factory also does very well. This kind of enterprise organizational pattern has much room for development in the "main factory" itself and in relations between the "main factory" and "branch factories." As far as the present situation is concerned, it is necessary to guard against the "integration" of administration and enterprise (for example, the integration of the Committee of Villagers and the main factory. The village is not a first-level administrative power. Here we use the concept of "administration.") This is a common problem for numerous township-run and village-run enterprises. Moreover, it is necessary to pay attention to clarifying property rights over the "collective property" of the "main factory." Some factories will gradually become main investing bodies and will have industries set up with their own investments. This is a feasible way of strengthening the economic strength of the "main factory." Furthermore, the majority of "main factories" are set up according to administrative villages. They absorb family industries throughout the village that produce the same kind of products. But in order to promote the flow of the elements of production, the "main factory" should not be limited by the administrative village. The "one main factory in one village produces one special product" pattern is feasible at the preliminary stage of building joint operating bodies and joint economic bodies of family industries. However, it must not be used as an unchangeable principle. We should arrange for the future according to the rules of the

commodity economy. I believe that Wenzhou's family industries are reforming the enterprise organizational pattern in the two directions mentioned previously. This is an inevitable result of the development of the commodity economy. It offers us numerous valuable experiences for future theoretical exploration.

### **Paper Urges Delegating Power to Localities**

*HK3010135791 Beijing JINGJI CANKAO BAO  
in Chinese 6 Oct 91 p 4*

[Article by Liu Lizhong (0491 4539 0022), manager of Changcheng Special Steel Company: "Effective Mechanism Should Be Established To Regulate Power—Invigorating Large, Medium Enterprises as Viewed From Enterprise Law"]

[Text] In order to invigorate large and medium enterprises, it is necessary to strengthen enterprises' internal management and improve the external environment. This is a common understanding which has been established among various circles. Now the improvement of a power structure which dominates economic operation and the establishment of a mechanism to regulate the power to suit the power structure have become the key to invigorating enterprises.

In the past 12 years of economic structural reform, the external environment for enterprises has undergone profound changes in the following four aspects:

- The state economic structure has been shifting from the highly centralized planned economic mode in the past to the track of planned commodity economy, which has changed the old unitary economic mode, has given an impetus to the development of various new economic relations, and thus has created objective conditions for invigorating enterprises.
- By the "Enterprise Law" and in other forms, the state has established the enterprise's due authority and duties, and their status as relatively independent commodity producers and dealers, thus changing the old status of the enterprise as a pure "producer" fully dependent on the government.
- The government's administration over enterprises has been changed from direct administration to a kind of dual administration combining indirect intervention with regulation through economic levers, the market has been moderately opened up, and the enterprises have been pushed to join competition.
- The original structure of state monopolized interests has been transformed into a new diversified interests structure involving the state, the locality, and the enterprise.

All the above changes have laid down a most profound basis for fully invigorating large and medium enterprises in China. However, we must also be aware that the state's efforts to streamline administration and delegate

power to the lower levels with a view to invigorating enterprises are still at the stage of division of administrative power, which means a shift from the old system of "administration by department" to the present system of "administration by area," and nothing more than this. As no effective macroeconomic regulatory mechanism has been established while the power is delegated to the lower levels, this simple measure based on substitution of administrative means may have, in a certain sense, further tightened up the local administrative authorities' direct control over enterprises.

The economic sector's subordination to government administration is a main characteristic of economic operation in China. To be sure, a series of laws and regulations have been formulated and put forth, such as the "Enterprise Law"; the "Bankruptcy Law"; and other legal documents concerning planning, price, economic circulation, investment, banking, finance, taxation, labor and wages, and social security, which offer an opportunity for introducing macroeconomic regulation. However, since the reform itself was initiated on the basis of highly expanded administration and power after many years of operation under a planned economic system, the obstructive inertia has hindered the development of an environment for indirect macroeconomic regulation. Therefore, the ultimate factor dominating economic operation is neither economic levers nor laws but administrative power. Such a situation has caused the following problems:

1. Despite the coexistence of two regulatory mechanisms, direct intervention mainly through administrative directives still plays a decisive role.
2. After the government lifted restrictions from enterprises, a nominal change from direct control to indirect regulation has been effected and enterprises have been given decision-making power. However, as far as the administrative method is concerned, the government has made every effort to regulate the behavior of enterprises by a unified pattern in such areas as promotion, performance assessment, and awarding of prizes and bonus. As a result, the administrative power is intensified in a disguised form.
3. While delegating power to the lower levels and letting them retain a proportion of profits, the state has abolished the power regulating mechanism that matches the state monopolized interests structure. However, when the diversified interests structure began to take shape, the mechanism to regulate power has not been remolded in due course, therefore, it is not possible to clearly define a reasonable balance of the extent of power between the state, the locality, and the enterprise. On the one hand, this situation has made the relations between the state, the locality, and the enterprise more complicated and further intensified the conflicts between them; on the other hand, it has resulted in the phenomenon that governments at all levels, actuated by local interests, have resorted to the practice of "aiding the poor at the expense of the interests of the rich." Well-run enterprises

have to face various extortion threats under the pretexts of "apportion, patronage, and fund raising." However, when an enterprise is in a critical condition, the locality is simply unable to help it, whether in terms of supply of funds, resources, or market.

4. The enterprise is exercising its "decision-making power" under the dual pressure from the authorities' administrative intervention and market competition. This kind of "decision-making power" is subject to direction from different authorities and various constraints which are in turn derived from many different groups of interests. So contradictions and conflicts are inevitable. As a result, on the one hand, the enterprise is at a loss as to what to do; and on the other hand, it is forced to adopt the so-called "marginal policy"—whichever policy is more favorable will be followed. As the enterprise is seeking to survive under various constraints and directives, it just cannot realize its wish to operate smoothly according to the law of the planned commodity economy.

Establishing a kind of scientific relation to regulate the power is an objective need arising from the development of the planned commodity economy. The crux to reforming the economic structure lies in the reform of China's longstanding operational structure, which is characterized by highly centralized power and the integration of politics and economy, and which manages the economy and enterprises with policies, by administrative division, and by different administrative levels. The structure has made the enterprise an appendage of the government, and put it under the pyramid administrative hierarchy in which the subordinate obeys the superior. This being the case, the enterprise itself has no vitality.

The first requirement for the planned commodity economy is to emancipate the enterprise from its status as an appendage to the highly centralized administrative structure. In other words, a change from the state and locality's direct intervention in enterprise management to the indirect regulation and control of the enterprise by means of law, policy, and economic levers should be effected, so that a market structure exercising macroscopic indirect regulation and control will be developed gradually, and the government can perform the state's duty by exercising macroeconomic administration through economic policies as an intermediary, thus providing a reasonable environment based on policies enabling the enterprise to operate according to economic laws. This requires us to focus our attention on smoothing out economic relations rather than to simply stress the policy of delegating power to the enterprises and letting it retain a proportion of profits. If we place hope on the blood-transfusion-type aid alone, helping some enterprises by the practices of "offering special treatment" and "giving double guarantees" [shuang bao 7175 0202], we are only encouraging the enterprises to rely more heavily on the government, and can hardly invigorate them substantially. Therefore, only by introducing a kind of dynamic relations regulating the power

will we be able to ensure that enterprises can operate on their own, assume full responsibility for profits and deficits, accumulate capital for themselves, and regulate themselves, according to their own will and value standard, while observing the law of economic operation.

### Local Government in Enterprise Operation

HK2010020091 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 8, 20 Aug 91, pp 48-55

[Article by Social Sciences Fund, with Mao Tianqi (0379 1131 0796) and Zhu Tiezhen (2612 6993 5271) in charge, written by Zhang Zhenbin (1728 2182 2430), edited by Ye Di (5509 2760): "Local Government's Economic Behavior in Enterprise Operation"]

[Text] One of the important targets of reforming China's economic structure is to make the enterprises, under the public ownership system, become the commodity economy's main operational bodies, which are autonomously run and are solely responsible for their own profits and losses. Hence, reform of the enterprise structure (principally enterprises under the system of ownership by the whole people) has become a central link in the economic structure's entire reform. Experience in the over 40 years of change and reform in the economic structure since the founding of the republic have shown that the key problem in enterprise reform is how to handle well the economic relations between the state and the enterprise to achieve the enterprise possessing vitality and life and ensuring effective regulation and control by the state over socioeconomic life. There are many and different angles in studying the economic relations between the enterprise and the state. We shall carry out the analysis from the angle of the local government's behavior.

### I. Conditions Under the Traditional Economic System

In China, the traditional economic system generally refers to the system prior to the 1978 third plenary session of the 11th CPC Central Committee, that is, the system before the beginning of reforming the economic structure. Centrally speaking, the traditional economic system is a planned economic system having the special feature of a high degree of unified administrative mandatory control. Under the traditional system, government exists as the supreme commander in economic operation and economic control; and the enterprise is a subordinate unit of the administrative and controlling organ. This is a prerequisite in our analysis of the local government's behavior in enterprise economic operation under the traditional system. In analyzing the local government's behavior in enterprise economic operation, first of all, there is the influence of the economic relations between the local and central governments. This is because the different pattern of the relationship between the central and local governments is a basic precondition in determining the local government's economic behavior. The economic disparities between the central and local governments are many, but as far as our

analysis here is concerned, the administrative subordinate relations of state enterprises are extremely important. In the 30 years and more before reform, the administrative subordinate relations of China's state enterprises have all along been continuously readjusted and changed between the central government and the local government and in connection with this, the local government's behavior in enterprise economic operation have also been constantly readjusted and changed.

In the initial period of liberation, the whole country was divided into six large administrative zones: Northeast, North, East, Southwest, and Northwest. Economic activities of the localities were principally under the respective leadership of the various zones. In November 1952, the central people's government strengthened its centralized and unified leadership, streamlined the political power layers, and decided to change the large zones from first-grade political power organs to representative organs of the central people's government. In June 1954, the central people's government decided to abolish the big zones. Abolition of the zones further strengthened the central government's centralized and unified control of the economy. As a result, it was necessary to correspondingly increase and strengthen the relevant central economic administrative departments and thereby forming an economic control system with the departments and ministries taking charge. With regard to the enterprises' subordinate relationship, prior to 1953, outside of the North China zone, the enterprises were basically under the control of the large administrative zones. With the abolition of the big zones, large state enterprises successively came under the leadership of the various industrial departments or ministries of the central government.

Following a period of actual practice, the leadership group at the time began to understand the defects of such a high degree of centralized and unified control. In 1956, Mao Zedong had already pointed out: "The relations between the central and local governments also constitute a contradiction. To solve this contradiction, at present what should be noticed is that on the precondition of consolidating the central government's unified leadership, the power of the localities should be expanded a little bit. The localities should be given a greater independent character and allowed to accomplish more." Based on this thought, in October 1957, the central government decided to readjust the subordinate relations of the enterprises at that time. A portion of the enterprises directly subordinate to the central ministries were delegated downward to the administration of the localities (mainly provinces, directly subordinate municipalities, and autonomous regions). By 1958, the number of enterprise units directly subordinate to the central ministries had been reduced from 9,300 in 1957 to only 1,200, a 90-percent reduction.

The "great leap forward" of 1958-60 put China's economy in a serious predicament. In January 1961, the party Central Committee issued "certain temporary regulations on readjusting the management structure," and

decided to take back a number of enterprises which had been unsuitably delegated downward. By 1965, the number of enterprises subordinate to the central ministries had increased to 10,533.

During the Great Cultural Revolution, China's economic control structure was seriously disrupted. During the short period before and after 1970 more than 2,600 central enterprises, including such large backbone enterprises as Anshan and Daqing, were all delegated downward to the administration of the localities, and some were sent to special districts, cities, and counties. It was only in 1977, after the Cultural Revolution ended, and in order to overcome the confusion caused by delegating enterprises downward, that the subordinate relations of a portion of the enterprises were readjusted and a large number of backbone enterprises returned to the direct management and control of the relevant central departments.

From the above simple and short review, it can be seen that within the framework of centralized mandatory planning, despite administrative subordinate relationship of enterprises having been constantly readjusted between the central and local governments, yet in the course of this procedure, the local governments, from beginning to end, have been in a passive position. This obviously conformed with the political power structure being centralized mainly in the central government. Under such a centralized power structure, the special features of the local governments' economic behavior in enterprise operation may, in general, be mentioned as the following:

1. The circumstances and situation of local state enterprises and central state enterprises have been obviously different. Be it a local or a central enterprise, although administratively, subordinate relations there can be a demarcation, yet so far as the locality area is concerned they are similarly located in a concrete administrative zone. In this context, within a certain locality, the central and local enterprises have the same economic and social conditions and in many respects have to jointly depend on the environment and conditions of the locality and thus unavoidably must develop a relationship with the locality's government. Precisely in this regard, they face a rather large disparity in external conditions. So far as the local enterprises are concerned, because their subordinate relationship is with the local government, their output value, products, employment of staff, and profits basically come under the locality's control and hence are considered by the local governments as their "own." In various respects, the local enterprises are given exceptional consideration and support. They enjoy special preference in social welfare, public facilities, land use, land occupation, schooling of the children of their staff members and workers, and so forth. At the same time, they are subjected to strong intervention from the local government in their production and operation activities. In contrast, central enterprises in the locality, though basically not having any contact with the local government in respect of production and operation and not

having to take orders from the local government, yet, in the external environment, they suffer from the local government's restriction and discrimination, and their treatment is far inferior to the local enterprises.

2. The local government's behavior in enterprise economic operation are obviously two-sided. In enterprise economic operation, local government plays a dual role; this principally refers to local enterprises. It frequently considers itself the enterprise's "family head." Externally, local government is, in fact, the protector of the local enterprise. On the one hand, this protection is manifested in protecting the enterprise from the influences of other localities, that is, protecting the locality's market and resources. On the other hand, it is manifested in protecting the enterprise from "departmental" intervention coming from the central government, that is, concerning the "independent character" in the local enterprise's production and operation. Although, under the traditional system, enterprise management is principally affected by administrative subordinate relations and the central government's "departmental control" may not go deep into the industries and trades, yet, be it a central or a local enterprise, it cannot avoid coming under the influences of the central "departments." So far as local government is concerned, how to reduce to the minimum the influences of the "departments" on the local enterprise is of supreme importance, otherwise local enterprises would exist in name only. Due to that under the traditional system the threat to the local government's self-interests come vertically (from the central government) is much stronger than that coming laterally (from other localities), local government attaches special importance to protecting local enterprises from "departmental" intervention. Inside the enterprise, local government fully exercises its power of administrative control and rigidly regulates the enterprise's production and operation activities.

3. Local governments exercise mandatory planned control over the enterprises. Be it a local or a central enterprise, under the traditional system, neither can shake off the position of being appended to an administrative organ. To a definite extent, this point is manifested more clearly and fully in the case of local enterprises, because local government's administrative mandatory plan on the enterprises is frequently more concrete, rigid, and realistic than the central government's. An enterprise is not a concrete economic body but is merely a "unit." It must unconditionally carry out the local government's administrative orders. So far as the local government is concerned, its basic task in enterprise operation is to "control," and naturally it must try hard to "control tightly" and "control well." Besides, this sort of control is in administrative form, basically not requiring any economic measures. Before reform, local governments generally set up various kinds of controlling organs more or less akin to the central government's "departments," and put their subordinate enterprises under their own control. In reality, these organs are "small departments or ministries," and in the

form of control and in enforcement mechanism, there is essentially no difference from those of the "big departments." In the enterprise's daily production and operation, input of raw materials is subjected to unified purchasing and marketing under the local government's control. Income distribution is subjected to unified receipts and expenditures under the control of local finance. Even in the production process, what the enterprise produces, production quantity, how to carry out production, and production artwork are all rigidly controlled by the local government's planning department and department in charge of the enterprises. The enterprise's leadership people and even heads of its workshops are all appointed or accepted by the local department in charge. In this context, the local government's behavior is the basic factor determining the enterprise's economic operation and, all in all, the enterprise's economic operation is but an extension of the local government's behavior to inside the enterprise.

4. Enterprise economic operation and local government's behavior possess a rather large, unanimous character in point of interest, motive power, and target. Naturally, this character of unanimity is based on the enterprise unconditionally obeying the local government's orders. In any kind of economic or social system, any economic or social unit has its own interests. The problem is whether or not these self-interests possess an independent position and whether or not they conflict with the interests of other units or with the interests of the general body. Under the traditional economic system, an enterprise (regardless of whether we consider it an economic or an administrative unit) in fact has its separate interests and the disparity in these interests is manifested both economically and in other respects. But these sort of interests do not have an independent position. This is because the enterprise itself is subordinate to the government's administrative unit and hence its interests are appended to the government's interests. At the same time, despite that so far as the enterprise is concerned this sort of appended relation is not independent, yet in the interest structure of the general body, these appended relations form a unanimous character on the two related sides, although this sort of unanimity is one with differences. However, as a result of the restriction of the appendix relations, there is little possibility of these differences leading to sharp opposition or conflict. In our opinion, the unanimity of interests under the traditional economic system should be explained and interpreted from this angle. Quite obviously, this sort of explanation is one made from the angle of the interest operation mechanism and does not touch on other deeper sources (such as the property rights system and the relations of the ownership system). Precisely, the unanimity of these interests determines the unanimity in motive power and target between the local government's behaviors and enterprise operation. The local government's target and motive power in enterprise economic operation frequently consist of solving the problems of employment, establishing the local industrial system, increasing the local industry's output value, and

increasing local financial receipts. Correspondingly, the target in enterprise operation is frequently manifested in expanding the operational scale, increasing the output volume, developing commodity variety, and enhancing the enterprise's profits. And unified purchases and sales, unified distribution and allocation, and unified receipts and expenditures create the conditions for ensuring the unanimity in target and motive force between local government's behavior and enterprise economic operation.

5. In treating the state enterprises' financial relations, local governments have shown an unstable character and behaved in a short-term manner. Due to the constant readjustment of the state enterprises' administrative subordinate relations between the central and local governments and the local government being in a passive position in these readjustments, in the control of state enterprises, it is difficult for local government to form long-term and stable economic anticipations. Even under the conditions of an enterprise being allocated to a local government's control, the latter is not very much interested in the enterprise's property accumulation, particularly those by intension, that is, technical transformation. Moreover, under the traditional economic system, the transfer without compensation of state assets (frequently taking place in changes of administrative subordinate relations of the enterprises) further disrupts the local government's enthusiasm for making property accumulation. In actual economic life, local governments frequently effect control over the enterprises' products and problems in production, and, to a definite degree, limit the size and scale of the enterprises' assets (preventing them from growing too large), thus preventing their possible takeover by the central government. At the same time, they spend large amounts of the surplus profits on establishing and developing local enterprises and a large portion of the state enterprises' financial receipts on new projects, even to the extent of supporting local collective enterprises not liable to takeover by the central government, and on the "five small" enterprises. By so doing, and seen from the property rights structure of the national economy, not only is the situation like what economists have frequently criticized—that inside the enterprise there is no personified representative of the enterprise's property rights—but also outside the enterprise the local government's concern with protecting and increasing the enterprise's assets actually does not exist. As a result, people have frequently said that, under the traditional economic system, the system of ownership by the whole people is, in effect, a system of "ownership by the regions" and that the property right relations are in reality empty. As a matter of fact, such an observation cannot fully depict the reality of economic life because, quite obviously, even among the various regions and localities, the property right relations of state-owned assets are not clearly demarcated.

## II. Changes Since Reform of the Economic Structure

Over the past 10 years and more since reform, clear and deep changes have taken place in both the relationship between the government and the enterprise and that between the central and local governments. These changes have formed the starting point of further deepening the reform.

In the past 10 years, urban economic reform has shown two basic special features. One of them is tax reduction and ceding of interests to the enterprises; the other is streamlining the political structure of, and delegating power to, the localities. Following the efforts made in the 10 years, at present in China's economic life, the enterprises and the localities have greatly strengthened their economic autonomous power, economic strength, and economic vitality. The enterprises have begun the change to commodity producers which are autonomously run and are solely responsible for their own profits and losses, while in economic activities the local governments' position and role have been unprecedentedly raised. The conditions on these two sides, as well as the new readjustment of the enterprises' administrative subordinate relations, have brought about many new features in the local government's behavior in enterprise economic operation.

1. Although local governments have entertained a different attitude in their treatment of local and central enterprises, yet the disparity in the external environment faced by the local and central enterprises has been reduced. From 1982 to 1987, the petrochemical industrial enterprises, "direct-supply enterprises" of the non-ferrous metals industry and motor car manufacturing enterprises of the localities were taken over by the central government, forming corporations directly subordinate to it, such as the China National Petrochemical Corporation, China National Nonferrous Metals Industry Corporation, China National Automotive Industry Corporation, and so forth. At the same time, a large portion of the enterprises originally subordinate to the Ministries of Machine Building, Electronics Industry, Metallurgical Industry, and Textile Industry were delegated downward to the local governments. Tianjin Harbor, Dalian Harbor, and other harbors originally subordinate to the Ministry of Communications were also turned over to the local governments. The local governments were allowed to establish ocean shipping, aviation, and other enterprises. In the special economic zones, coastal cities and towns opened to the outside, and Guangdong and Fujian Provinces, the local governments' control over the enterprises was further enhanced. In 1988, the output value of the industrial products under the management and control of the local governments made up 80 percent of the industrial gross output value, while 65 percent of cement, 50 percent of coal, 30 percent of steel materials, and 30 percent of timber were all allocated by the local governments. Accompanying the expansion of the local governments' economic control, the local governments could not avoid



taking up the tasks of supplying raw materials to a portion of the central enterprises, building basic facilities, and so forth.

What is more important is that due to the increase in the enterprises' power of handling their finances and the expansion of their decisionmaking power in production and operation activities, both the central and local enterprises have strengthened their independent status. To a definite degree, even the local enterprises, which the local governments have considered to be "their own," have begun to shake off the local government's administrative mandatory control. This has caused the local governments to reduce their zeal in granting preferences to local enterprises. Following the changes in the financial system and expansion of the decisionmaking power of local finance in the issuance of bonds and debentures, there has been an increase in the financial power which can be autonomously handled by the localities. In particular, after the two-time enforcement of the measure of "tax-in-lieu-of-profit" and the corresponding tax reform, local governments' financial receipts, aside from being determined by the profits remitted by the local enterprises, are to a large degree determined by receipts from various kinds of taxes applied universally and without discrimination on all the enterprises (principally comprising products, value-increment, business, and income taxes). With the tax receipts occupying 80 percent of the total financial receipts and under the conditions of the enforcement of the contracted-receipts system in central finance and local finance, local finance is most concerned not only with the condition of the local enterprises' economic effects but also with the central enterprises' production and operation conditions. If at this juncture local governments still discriminate against the central enterprises, then this would be very unwise. At the same time, following their expansion of the enterprise's autonomous power and its possession of a definite degree of decision-making power in respect of marketing products, purchasing input materials, employing staff, and disposing receipts, local government, in handling many of its affairs, has to depend on the enterprises while the latter have the corresponding ability and power. As a result of the overall role played by these factors, local government and central enterprises have developed more ties in terms of mutual interests. A coordinated relationship of mutual aid and benefit has thus begun. Despite that in this coordination there is still much abrasion and conflict, yet, compared with the traditional system, many substantial changes have been made.

2. In its capacity as protector of local enterprise, local government's major efforts at the time of the traditional system were mainly directed at the central departments in charge but have been shifted to guarding against other localities, that is, from mainly guarding against the "departments" to against the "localities." Following the expansion of the enterprises' autonomous power and the central government's policy of "streamlining and power delegating" to the localities, the central departments'

traditional centralized and unified controlling power has been greatly reduced. This is true not only with the specialized departments but also with the overall economic departments. Be it the supply of materials in the case of the state's mandatory planned control or the output of products, and be it the commodities under the state's fixed prices or the corresponding portion of the central financial receipts, they have all been greatly reduced. Concurrently, the various local governments' economic control power has been enhanced. Thus, this forms a sort of competition between enterprises of a locality and the various local governments for realizing the development of the local economy and the enterprises' economic targets, such as competing for raw materials, commodity market, foreign trade exports, preferential policy treatment, and so forth. Each and every local government hopes that its local enterprises' competitive power will be strengthened and that it can provide adequate protection to the local enterprises in this regard. In recent years, this has caused economists to repeatedly criticize the phenomena of forming special spheres of influence, locality economic blockades, and so-called "kingdom economy." Although we are still unable macroeconomically to analyze the effects of these phenomena on enterprise operation activities and the economic effects, yet these phenomena do reflect new changes in the reciprocal relations between local government and enterprises. They also reflect a kind of new role and new behavior on the part of local government in enterprise economic operation.

3. In the management and control of enterprises, local governments have begun to leave the track of full implementation of administrative mandatory planning and this is particularly obvious in the production sector. Following expansion of the enterprise's autonomous power, and seen from the general body of China's national economy, government's administrative control over the enterprises has been greatly loosened. Be it a central or a local enterprise, its economic vitality has obviously increased. As far as the local government is concerned, the enterprise is no longer a simple administrative unit, but is an independent economic entity; and it is necessary to acknowledge and respect the enterprise's independent economic interests and economic power. Proceeding from this point, local government's administrative intervention of the enterprise has been reduced, whereas there has been a continuous increase in regulation and control by means of economic levers. Vis-a-vis some of the enterprises, local government no longer interferes with their purchases of essential input materials or marketing of their products, and basically does not intervene in such problems as what the enterprise produces, how it carries out production, and its output volume. Despite that in production and operation activities, enterprise operators still feel various restrictions, yet, in comparison with before, the enterprise is enjoying much greater freedom and autonomy in production and operation. Another change in the form of local government's control over the enterprises is the gradual reduction in specialized control departments



and the continuous increase and rise in the role of overall controlling departments. In recent years, accompanying the changes in the state economic structure, the position and role of the local government's small "departments" in economic activities have been continuously restricted. Some "departments" have been converted into companies, others into federations of an administrative character. Although there is no change in substance, certain evolutions have happened in control functions. Concurrently, in local government's economic control, the overall economic departments, such as planning, finance, banking, auditing, and commodity prices, are daily displaying an increasingly important role. Despite the fact that in the economic control of the enterprises the local government's overall economic departments still have not fully used economic tactics, yet there is general employment of economic measures administratively. Be it in the sectors of planned targets, delivery of financial receipts, enterprise profit retentions, bank loans, or commodity prices, although the mandatory character is diluted, yet not all have resorted to an economic mechanism. In the majority of cases, decisions are made through haggling and negotiating with the enterprise. The contracted operation responsibility system is a central illustration of this phenomenon.

4. Between local government and enterprise the disparities in such sectors as economic interests, motive power, and target of economic operation are growing daily. The unanimity in interests due to the status of subordination under the traditional system is broken to pieces. Following the enterprise's transformation into a commodity producer that runs the business autonomously and is solely responsible for its own profits and losses, the enterprise's self-interests have begun to be recognized and the enterprise has begun to attain the independent status of being the principal body of interests. The independent character of the enterprise's interests implies the termination of the interest relationship growing out of subordination under the traditional system. Like any other economic entity, even inside the state economy, an enterprise cannot from its own angle constantly, consciously, and initiatively put collective and common interests in the first place. Naturally, first of all, it must take care of its own interests. Hence, in economic operation, it will first of all ensure realization of its own target (profit). When the local government's economic target is not beneficial to realization of its own target to the maximum degree, or is even opposed to it, the enterprise will resist, which is entirely possible in view of the expansion of the enterprise's autonomous power. On the side of local government, it must ensure realization of its own target and other social targets and hence must maintain definite, effective and clear power of influence and power of control over the enterprises. In this context, the local government hopes that the enterprise's independent character is relative and controllable. Thus, there appears the phenomenon of the so-called "taking away" and nonrealization of the enterprise's autonomous power. This phenomenon is especially obvious in the relationship between large- and

medium-sized enterprises and local government. Seen from the present and the many problems arising therefrom, this difference in the targets of enterprise economic operation and local government's behavior holds the key to currently strengthening the enterprise's vitality. After the complete breakdown of the traditional system of the enterprise being appended to government, we must build up a new system and mechanism to coordinate the economic interests and economic targets of enterprise and government, particularly local government.

5. In enterprise economic operation, local government gradually has begun to shift to the direction of coordinating and rendering services. The government's behavior in enterprise economic operation has begun on the outside. As mentioned above, under the traditional economic system, local government's behavior determined the enterprise's behaviors. Similarly, this has been the case as a result of the expansion of the enterprise's autonomous power. Following actual practice in reform for over 10 years, leadership people of many local governments have come to realize that the enterprise is the basis and source of the local economy and financial receipts and that only through the enterprises being rich in life and vitality is there sufficient assurance for the development of the local economy. Under the conditions of commodity economy, the market is the only theater for enterprise development; hence government must provide the enterprises with conditions for fair and just market competition. It must be acknowledged that this reasoning is generally accepted in the economically more developed coastal regions. Changes in the guiding thought of economic control have led to important changes in local government behavior. In recent years, many local governments have reinforced the construction of such basic facilities as those in the energy and raw materials fields. Many localities have advocated and enforced new measures and new methods to strengthen the enterprise's vitality. This shows that in enterprise economic operation, the form of local government's behavior has departed from the old pattern of going deep into the internal affairs of enterprises under the supply system, and thereby gradually turned to creating for the enterprises an advantageous external economic environment and conditions for operation.

Ten years of reform definitely have caused deep changes in China's economic system and economic operational mechanism, causing the appearance of many new features in enterprise economic operation and local government's behaviors. Obviously, certain changes are positive or active ones, and have played a promotional role in enhancing economic benefits; but others are passive, disadvantageous to strengthening enterprise's vitality and enhancement of economic effects, and also disadvantageous to development of socialist commodity economy. But, speaking as a whole, it should be fully affirmed that in the past 10 years, seen from the angle of enterprise economic operation, local government's behavior has changed toward the rational direction.

Compared with the traditional economic system, these changes have made the operations in China's economy richer in life and vitality and promoted the development of socialist commodity economy. The problem now is: how, taking the strengthening of enterprise's vitality as the nucleus and proceeding from enabling the enterprise to become a commodity producer running its own business autonomously and being solely responsible for its own profits and losses, to further rationalize the local government's behavior.

### III. Future Prospects and Selection

Seen from the angle either of the enterprise's internal management and control or its external economic environment, making local government's behavior rational is an important part of strengthening enterprise vitality and upgrading the enterprise's economic operations. The special reality of China's economy determines that, in the process of reforming the enterprise structure, the rationalizing of local government's behavior must be included.

Rationalizing local government's behavior mainly includes two points: one is the correct handling of the economic relations between the local and central governments and in the entire macroeconomic control system of the national economy suitably determining the position and functions of local government; the other is the correct handling of the economic relations between local government and enterprise and in the economic operational mechanism and assets organizational structure of socialist state enterprises displaying well the functions and role of local government. Naturally, these two points are mutually related and restricted, but in so far as strengthening the enterprise's vitality is concerned, undoubtedly the second point is of a more direct and important nature. Seen from the present, to solve this problem, we should pay special attention to the following four points:

1. It must be made clear that the enterprise is the principal body of a socialist planned economy, that it is a commodity producer possessing independent economic interests, runs its business autonomously, is solely responsible for its own profits and losses, and can accomplish self-development and self-restriction. Both in theory and policy, this principle has been acknowledged early on but, in the actual practice in reform, to truly achieve these aims is very difficult and there are numerous impediments. The more obvious deviations in understanding are: 1) the belief that a socialist enterprise cannot take profit-making as the objective; and 2) the belief that a socialist enterprise cannot be merely an economic body which only attends to production and is not at all concerned with politics. There have been disputes on the first problem in the theoretical discussions on the purposes of socialist production. As we see it, for the enterprise to take profit-making as the purpose of its production conforms with the law of development of socialist commodity economy. Under the conditions of commodity economy, all of an enterprise's activities

must take profit-making as the nucleus. So far as the enterprise is concerned, profit is its lifeline. Coordination between the enterprise's profit-making and socialist production's purposes (maximum degree of satisfaction of the masses' material and cultural living needs) is an important task in macroeconomic control and we can only, through a rational macroeconomic mechanism, realize this point in the competition for profits among the enterprises. Regarding the second problem, we believe that despite that a socialist enterprise must whole-heartedly rely on the working class, enforce the principle of the worker being the master of the house, must firmly insist on the socialist direction in all production and business activities, and display its role in the realization of the social functions, the enterprise itself is after all an economic entity and not a political organ. Its central task lies first in production and its production activities must be left to the operators' (plant heads or managers) responsible organization. It cannot depart from production and talk about the enterprise's other functions. We should never return to the "leftist" scheme of "making the enterprise an all-round dictatorial tool" as during the 10 years disturbances.

2. Local government is the most important link in the handling of economic relations between the state and enterprise. In recent years, among the theoretical and economic circles, there have been frequent discussions on the problem of the so-called "kingdom economy," and some of the criticisms are very penetrating. In such a large country as China, it is impossible for economic life to normally and effectively progress if we are to depart from the local government's economic activities and role in economic operation and economic control. Due to that in actual life, an enterprise's economic operation more frequently takes place in the locality where the enterprise is located; that, in particular, since reform control by central "departments" is being gradually changed into macroeconomic guidance and coordination of an administrative nature; and that in economic control the importance of local governments at various levels, particularly in the case of first-rank local governments, has been enhanced daily, the problem of how to handle the mutual relations between the state and enterprise, to a considerable degree, has evolved into one of how to handle the reciprocal relations between the local government and enterprise. Here we shall leave aside the problem of the enterprise's administrative subordinate relations but merely look at the relations between the state and enterprise in respect of distribution of receipts and operational decision-making. We believe that the basic starting point in considering and handling this problem should be at the local government level, that is, the problem of the relations between local government and enterprise, and that, on this basis, follow up with putting in order the economic relations between the central and local governments. Under the precondition of strengthening the central government's macroeconomic adjustment and control, between central and local governments there should be a necessary demarcation of administrative power and financial and economic

adjustment and control power; an economic adjustment and control system which is by levels and of various types; and clear determination to what local government can do, and the way of doing it, in enterprise economic operation. Speaking from the actual experiences in reform, the policy of central departments-in-charge delegating enterprises to the lower levels was correct in direction. The problem is not in delegating or not delegating but in how local government performs after delegating.

3. Local government's basic function in enterprise economic operation should be to create a rational external environment for the enterprise to conduct production operations. In transforming traditional mandatory and planned economy into planned commodity economy, the operational mechanism first must be changed; the most important problem in changing the operational mechanism lies in loosening the government's administrative control functions, as well as economic adjustment and control functions. Government should be separated from enterprise's daily management and control and the enterprise should be allowed to regain its operational power. The general principle is: government should control well what it should control and leave aside what it should not control. The local government's economic behavior should principally consist of: 1) fixing and enforcing the development strategy of the economy of the locality, and, based on the overall demand of national economy and local special features, developing the strong points of the local economy, determining the development direction, and readjusting the economic structure; 2) coordinating the resource conditions and ecological conditions within the locality; realizing the best distribution and allocation of the locality's resources; augmenting the basic facilities and public utilities; and providing enterprise with material, information, and servicing conditions for engaging in market competitive activities; 3) ensuring equality in economic competition among the various enterprises, and maintaining the economic order of commodities; through economic legislation, economic policy, and various economic levers in local currency and finance, creating a good competitive market environment for enterprise's production and operation activities; 4) developing and organizing regional commodity markets and markets for essential elements of production; ensuring these markets to be always available for use; incorporating them into the national economy's whole market system; breaking down locality blockades; promoting lateral economic alliances among the various enterprises; and accelerating the development of interflow between local economy, external economy, and international economy.

4. On the basis of demarcating administrative and financial power between the central government and the local government, we should establish a state assets organizational system which conforms with the operational mechanism of the integration of planned economy and market regulation in the structure of the socialist commodity economy.

As we mentioned previously, under the supply system, due to the lack of definite demarcation of the property rights between the central and local governments, local government has displayed special features of short-term and unstable acts. Since the 10 years of reform, there has been no obvious change in this connection. Concurrently with the use, allocation, and handling of state assets, the various localities and departments are not responsible for the management and operation of state assets or for their value-protection and value-increment. This is a problem which must be solved first. To solve this problem, we believe that we should clearly divide the existing property rights of state assets. Based on the pattern of control at various levels and the network of administrative structure, we should clearly demarcate the property rights of state assets into those belonging to the central government and those belonging to local governments at various levels, and effect the changeover from assets management by levels to property rights allocation by levels. On this basis, "division of two rights" at two different levels will be accomplished and there will be a remaking of the property rights organizational structure in the economy under the state ownership system. First, we separate the end property rights of state assets from the operation rights of property rights. Under the conditions of governments at various levels holding the end property rights, we should create assets operation main bodies which handle the property rights of state assets, and thus bring about the personification of property rights of state assets with the operators being responsible to the state assets' end owner. We should make clear the end ownership right and legal person ownership right of state assets. Based on the affairs management right and finance right, the main bodies should deliver the assets operation benefits to the assets' end owner. At the same time, they should carry out their functions of holders of assets and may by various forms turn over the state assets to the direct operators. Second, on the basis of the gradual separation of the end ownership right and legal person ownership right of assets, the operation benefits of state assets should be enhanced, and we should thus turn to enterprise organs actually engaged in commodity production. This will require the organs dealing with property rights to locate the concrete operators, bring about the personification of the property rights of state assets, realistically use, allocate, and handle state assets in concrete form, and take up the reproduction activities of state assets.

The above-mentioned four points are only certain major problems which must be solved as early as possible when considered under present conditions. Naturally, they do not constitute the full contents for realizing the rationalizing of local government behavior. Moreover, regarding the local government's economic functions and behavior, they constitute problems entailing relatively more differences and disputes in reform theory; even though when considered from the angle of enterprise economic operation, they involve various kinds of supposition and interpretation. At any rate, we believe that while regarding these problems we should strengthen

probing by actual practice and theoretical research. In this connection, combining the two sides for study carries a greater significance than singly studying the enterprise problem and singly studying the local government problem.

### **Paper Says Stockpile Bargains Not Popular**

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[Text] Beijing, November 14 (XINHUA)—The drive to cut China's massive stockpiles and boost the retail market by selling off 21 billion yuan (about 3.96 billion U.S. dollars) worth of products at slashed prices has shown disappointing results, according to the newspaper CHINA BUSINESS TIMES.

The discount sales started in April after being approved by the State Council. Price cuts from 20 to 30 percent, swept wholesale depots in state-owned commercial, foreign trade, materials and medical enterprises.

However, the government-initiated drive could not rid companies entirely of their burdens. The commercial department has complained the price cuts were too trivial to have the expected attraction for consumers.

Facts show that selling goods off at cut prices was not an ideal method to solve the stockpile problem, according to the paper.

Some sellers could not collect payments owed to them from the buyers, since the big buyers are usually those enterprises currently troubled by the debt defaults. In this way more industrial and commercial businesses have become involved in the debt chain.

The best way to reduce stockpiles is to adjust industrial structure and product mix to meet market demands, the paper said.

## **FINANCE, BANKING**

### **Hidden Financial Distribution**

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[Article by Wu Qiang (0702 1730), of the Editorial Office of ZHONGYANG CAIJIN XUEYUAN XUEBAO [JOURNAL OF THE CENTRAL INSTITUTE OF FINANCE] and the Editorial Office of HUNAN SHUIZHUAN XUEBAO [JOURNAL OF THE HUNAN INSTITUTE OF TARIFF AND TAXES]: "Discussion of Hidden Financial Distribution"]

[Text] In the actual distribution of a government's financial revenues, all of its financial capital is dispersed through two channels: through general (open) financial distribution and through hidden financial distribution. In China, hidden financial distribution has become an

important supplementary form of financial distribution. It is necessary to study this subject in depth.

### **I. The Contents of Hidden Financial Distribution**

The contents of hidden financial distribution cover three areas: its hidden financing, its hidden financial expenditures, and its hidden fiscal deficits.

#### **A. Hidden Financing**

In China, the source of capital for hidden financing comes chiefly through three channels:

1. Inflation financing. The basic mechanism of inflation financing is carried out by issuing an excessive amount of currency to make up the government's fiscal deficit, which generally leads to a rise in commodity prices, and a depreciation in the actual value of currency held by the public: cash on hand, savings, and government bonds. This is no different from levying a tax on the currency and other capital assets. During this process, some of the capital resources that can be controlled by the public is turned over to government control without compensation, resulting in a comparable "inflation" tax. Many foreign scholars have described this special tax. In his "Tract on Money Reform," John Maynard Keynes pointed out that "government can use this action as an excuse to guarantee its control over real capital resources through this tax... People have discovered this is a tax that is most difficult to avoid..."<sup>1</sup>. William Lewis, founder of the dualistic theory of economic structure, indicated clearly that "in underdeveloped nations, inflation is only a substitute for taxes."<sup>2</sup>

While inflation financing as obtained through issuing more currency may be included as a budget expenditure and reflected in the fiscal deficit, this item has never been included in budget income. As far as the public is concerned, this kind of inflation financing is not part of the public revenue turned in. As a result, inflation financing is a highly sophisticated and hidden way to raise capital. In recent years, following increasing financial difficulties encountered in the nation, inflation financing has become an important means for China to raise capital. Except in 1985, the amount of the central government's inflation financing (deficit financing) in the period from 1979 to 1988 reached a total of 74.8 billion yuan, comprising roughly 10.6 percent of the central government's financial expenditures (the domestic portion).<sup>3</sup>

From the public's angle, the inflation tax can be computed from the loss incurred through the devaluation of monetary assets. Assuming M to be the actual value of the balance of monetary assets during the base period, and P (in decimals) as the scope of inflation at the computing period, then the actual value of M drops to M/(P+1). According to this, the formula for the inflation tax may be computed as:

$$T = M - M/(P+1) = M * P/(P+1)$$

According to this formula, we can compute the inflation borne by China's citizens, as noted in Table 1.

Table 1. Inflation Tax Borne by China's Citizens (in 100 million yuan)

Item	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Cash Inflation Tax	4	14	7	7	16	15	60	51	73	223
Deposit Inflation Tax	7	25	14	14	13	31	122	112	181	527
Total	11	39	21	21	29	46	182	163	254	760

Source: Calculated from data in *1989 Statistical Yearbook for China*, pages 589 and 687. M is the average monetary deposit, obtained by calculating (value at year's start + value at year's end)/2.

From Table 1, we know that the inflation tax borne by China's citizens, which already exceeded 10 billion yuan in 1985, jumped to 76 billion yuan by 1988. Between 1979-1988, the total inflation tax totalled 145.3 billion yuan, averaging 14.5 billion yuan per year, far above the general tax burden borne by the citizens for the same period. These inflation taxes pour into government agencies through two main channels. The first channel is cash, which is a debit item that the central bank owes the public, so the cash inflation tax is transferred to the central bank by reducing the actual debt that the central bank has not paid. The second channel is deposits, which are a debit item owed the public by specialist banks, but which actually become interest income benefiting the specialist bank. The deposited inflation tax benefiting the specialist bank again is transferred to government agencies through two channels: the deposit reserve fund channel into the central bank, and through those items that should be financed by revenues (items that are highly risky, long-term, nonprofit, and have potential for economic results), using low interest, no interest, or even paying interest, to subsidize credit for transferring the tax into revenue for the state.

2. Price differential tax. The price differential tax pushes the actual price of a commodity below the equilibrium price, having the distribution process reside in the exchange process as a way to raise financing capital. This approach uses price as the agent to carry out a version of hidden financial distribution. In China, the price differential tax is borne chiefly by agricultural products. Because the purchasing price of agricultural products is forced down, the purchase of agricultural products by the state hides the tax levied on them, which is realized through the purchasing link. Assuming  $Q$  to be the volume of agricultural products purchased,  $P_a$  as the actual purchase price,  $P_e$  as the agricultural product market price, and  $T$  as the price difference tax, we have

$$T = (P_e - P_a) * Q$$

On this basis, the rate of the price differential tax is noted as

$$t = T/P_e Q = 1 - P_a/P_e$$

In calculations, the price differential tax corresponds to the "scissors differential" in agriculture. According to estimates for the period ending in 1987, since the founding of the state, capital flowing out from agriculture through the scissors differential totalled more than

600 billion yuan<sup>4</sup>, with the annual average in excess of 16 billion yuan, far exceeding the agriculture tax load (the yearly average from 1980 to 1988 was 6.7 billion yuan). It can be said that it is this great price differential tax that established China's industrial base. In recent years, the scissors differential has shown a further tendency to expand.

3. Hidden income tax. This tax comes about when the progressive income tax system imposes a hidden tax on actual income because of inflation. Modern-day income tax systems are established on the foundation of a nominal income tax. With inflation, a rise in nominal income can cause actual income to move into a higher tax bracket, producing the phenomenon of "tax bracket creep," which leads to a situation where the actual income bears more taxes than it did when there was no inflation. This is the hidden income tax, which may be expressed as follows:

$$Tr = Rta - [R/(P+1)] * t_b = R * [t_a - t_b/(P+1)]$$

Where  $Tr$  is the hidden income tax,  $R$  is the taxable nominal income,  $t_a$  is the proportional tax rate calculated from the appropriate progressive tax rate for taxable nominal income,  $R/(P+1)$  is the actual taxable income (taxable income adjusted for inflation), and  $t_b$  is the proportional tax rate calculated from the progressive tax rate appropriate for actual income.

During inflation, a considerable part of enterprise profits obtained from price rises is derived from the difference between the actual price based on amount invested and the price adjusted for inflation. Under such conditions, whether a progressive tax rate or a proportional tax rate is used, hidden in the enterprise income tax are taxes levied for these invested elements. In the accounting model for historical cost/historical value used in China at present, it has not been possible to apply inflation-adjusted regulation on the value of fixed assets and the invested price for depreciated and raw material inventories, and interest for capital at the same time. Under such conditions, fictitious losses and profits created by figuring in a smaller amount of depreciation, less value for raw materials invested, and less interest on capital constitute important sources of enterprise income. In Table 2, we can note the damage to fixed assets from inflation, and the interest loss from bank loans given to enterprises in China.

**Table 2. Losses in Fixed Assets and Enterprise Loans Resulting From Inflation in Recent Years (in 100 million yuan)**

Item	1980	1981	1982	1983	1984	1985	1986	1987	1988
Average Balance of Fixed Assets	5102	5540	6014	6546	7102	7688	8528	9621	10994
Average Balance of Enterprise Loans	-	-	-	3242	3926	5163	6748	8331	9792
Fixed Assets Losses	291	127	114	98	192	623	486	654	1716
Enterprise Loan Losses	-	-	-	40	106	418	385	567	1528
Total Losses	-	-	-	147	298	1041	871	1221	3244

Source: Calculated from data in *1989 Statistical Yearbook for China*, page 67; and *1950-1988 Financial Statistics for China*, pages 118 and 180. Amount of loss calculated from  $P/(P+1)$ , where P is the total index for retail prices. Worth of fixed assets based on original price. Average balance based on (value at year's start + value at year's end)/2.

We can see from Table 2 that, beginning in 1985, because of losses due to inflation, the original cost of fixed assets and enterprise interest in China, excluding that for 1986, exceeded 100 billion yuan annually, and jumped to more than 300 billion yuan in 1988. Part of this large sum of capital goes into the state's treasury through such channels as the enterprise income tax, energy and transportation funds, regulatory fees, etc. Another part goes to banks for loan payments. Still another part becomes profits retained by the enterprise, a sizable portion of which is translated into a consumer fund for worker bonuses and welfare and luxury items. There is still some loss on fixed assets that is not entered as an item contained in the fictitious profits and losses for the year, although it will appear again in later years in the distribution process.

#### B. Hidden Financial Expenditures

Hidden financial expenditures are found in two situations. In one, the financial expenditure is not entered as an outlay in the state budget, but is implemented through another channel outside the budget. In the other situation, the recipient of the financial expenditure and the party directly receiving the benefit are separate. In China, the former is composed chiefly of tax preferences and "financed credit," and the latter of welfare benefits with different costs.

1. Tax preferences. The tax systems of all countries contain general (standard) rules that apply to all taxpayers, and specific (preferential) rules that apply to specific taxpayers. It is through such tax preferences that the taxpayer enjoys a reduction in taxes. As far as the state is concerned, this is a financial expenditure, except that this financial outlay does not come under the state budget, but is implemented through the revenue collection system. In foreign countries, revenue collection theory calls this process "revenue expenditures." This kind of revenue expenditure is widely noted abroad. China has no clear statistics on revenue expenditures, but judging from the widespread revenue reductions and deductions that take place, revenue expenditures must comprise a high proportion of budget expenditures. However, this large sum of capital has always been

buried under "revenue" and has never been reflected as an item in the state's financial expenditures.

2. "Financialization of credit." In the "financialization" of credit, the administrative authorities intervene with banks to divert credit capital to items for which the financial authorities should provide the capital. Because credit has become "financialized," banks usually incur somewhat large losses in interest, even to the extent of losing the principal. During the payback period for some credit loans, the extension of credit actually has the effect of substituting for financial expenditure. But the losses in interest and in principal carried by the banks during the payback period of the loan is actually a type of financial expenditure, except that it is transferred from the financial area for implementation by the banks. In China, because of the high degree of coupling between state financial authorities and the banks, and because of administrative intervention by local governments on banks extending credit, the "financialization" of credit is a common phenomenon. Actually, it has become an important channel for hidden financial expenditures.

3. In-kind differential benefits. For many years, the state has subsidized or not charged anything for a broad range of in-kind differential benefits whose costs differ, such as housing, essential foodstuffs, medical care, transportation, etc. This may be represented by the following formula:

$$S = (P_e - p) * R$$

Where S is the in-kind differential benefit,  $P_e$  the equilibrium price, p the actual price, and R the number of welfare items. Part of this in-kind differential benefit is subsidized (indirectly) and supported by government revenues. Before 1986, a form of diluted/reduced income was always used to cover financial expenditures for this commodity subsidy, which was not included as a budget expenditure item. In 1986, it was listed as a budget expenditure. Even so, what the citizens received directly were only low-cost welfare products not subsidized by government finance. Subsidy recipients and those directly receiving benefits were still separate. As the result, this type of indirect subsidy is still a type of hidden financial expenditure. During the 10 years from 1979 to 1989, one item alone, the price subsidy for grain, cotton, and oil, added up to 160.7 billion yuan (see Table 3).

Table 3. Fiscal Subsidies of Prices of Grain, Cotton and Oil (in 100 million yuan)

Item	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Subsidized Amount	55	103	142	156	182	202	199	169	195	204
Percentage of Fiscal Expenditures	4.3	8.5	12.7	13.5	14.1	13.1	10.8	7.3	8.7	7.5

Source: Calculations based on data from 1950-1988 *Fiscal Statistics for China*, pages 12 and 88.

China's hidden revenues and expenditures described above do not have a completely corresponding relationship. That is, hidden financial income does not translate completely into hidden financial expenditure. Certain items (such as the hidden income tax on fixed assets, inventories of raw materials and capital), may all be transferred for inclusion under general financial expenditures. Except for those hidden financial income/expenditure items that do not have a directly corresponding relationship, hidden financial and distribution items with a directly corresponding relationship make up capital outside the budget. While this part of the capital outside the budget cannot be entered as budget income, nor as budget expenditure, it is seen from the financial distribution angle as an item of hidden financial income/expenditures. Of course this does not mean that all capital outside the budget comes under the range of hidden financial distribution. According to elemental rules on financial distribution, only non-compensatory income eligible for re-distribution (not business income) and capital outside the budget that is controlled by government agencies can be considered for financial and hidden financial distribution. According to these rules, the scope of hidden financial distribution is defined by capital outside the budget that is held by local financial authorities, and capital outside the budget derived from non-business income that is held by administrative units and responsible agencies.

### C. Hidden Fiscal Deficits

Hidden fiscal deficits constitute an important component of hidden financial distribution. Hidden fiscal deficits do not represent the spread between hidden financial income and expenditures, but they do indicate that part of the fiscal deficit not reflected in the fiscal account, or that part for which the cause is hidden. In China, the following situations are found to exist:

1. Hidden fiscal deficits created by listing bonds as revenue. Logic calls for including bonds as a fiscal deficit item, but the statistical specifications practiced in China at present remove the bonds from the fiscal deficit. Consequently, bonds are a type of hidden financial deficit.

2. Hidden fiscal deficits created by a budget formula. In China, the state budget is determined by the budget of the central government and that of the local governments. Hence the fiscal deficit is also determined by the difference remaining after balancing the difference between revenue and expenditures at the central government level against that at the local government level. In

this manner, the central government's fiscal deficit can be watered down by a surplus on the local level, and give the overall deficit a lower estimate. According to the system presently used, any financial surplus remaining on the local level is kept there for use by the local authorities, and cannot be used to offset the central fiscal deficit. So the fiscal deficit that is watered down by a financial surplus on the local level is a type of hidden fiscal deficit. Between 1979 and 1988, the amount of China's hidden deficit that was watered down by a financial surplus at the local level totalled 16.5 billion yuan.

3. Hidden fiscal deficits resulting from fictitious revenues. Most of the state revenue in China is derived from production and marketing activities. But the taxes borne by commodities as the result of these activities may become false receipts when they cannot reach their final destination—the consumer. After these receipts and expenditures have been noted, real demand can appear and the financial expenditures resulting from these fictitious receipts and real expenditures actually become a kind of hidden deficit. While statistics are lacking in China, because of the differences in economic benefits that result, any overstocked inventory, wasted commodities, or slow sales indicate a serious situation. Therefore, it can definitely be said that this type of hidden fiscal deficit is quite high.

4. Hidden fiscal deficit created by inflation. With inflation, because the actual value on bonds not redeemed by the government drops, part of the expense used to cover the interest costs for the bonds is a return on principal for the bond, and not an actual cost for borrowing. This gives a higher estimate of the bond's actual cost, so we should include in financial expenditures the computed interest expense based on the actual interest rate (not the nominal interest rate) to offset the effect of inflationary factors. That is to say, this portion of hidden fiscal deficit should be taken out of the book value deficit. Usually a rather large difference exists between the two. For example, before removing inflationary factors, England's financial budget, except for one or two years, always showed a deficit. But after inflationary factors had been removed, practically all years showed a surplus, except for one or two years.<sup>5</sup> Because China is getting close to a peak in bond redemption, such an effect should not be overlooked.

## II. The Effects of Hidden Financial Distribution

From the above analysis we know that hidden financial distribution is practiced in China on a fairly large scale.



Therefore, there is a need to look at theoretical studies to explore its actual effect on the economy of the nation.

It should be said that when financial distribution in general is subjected to rather strict control by certain factors, hidden financial distribution will generate certain necessary complementary action. For example, tax expenditures are more accurate and effective than budgeted expenditures, so part of it offsets the inadequacies of the latter. Raising capital through inflation can only compensate for the trivial of additional taxes and the inadequacies of excessive resistance, to allow the financial establishment to temporarily meet a crisis. However, hidden financial distribution in general poses many inherent limitations not associated with other modes of financial distribution. This can be analyzed from two aspects: the financial disadvantages, and the economic disadvantages.

#### A. Financial Disadvantages

In the financial picture, hidden financial distribution introduces many passive effects. First, revenues and expenditures in hidden financial distribution are hidden in a way that makes the process difficult to supervise, manage, audit, and control in proper order. As the result, it becomes an abused long-term process. Second, in the revenue receipts of hidden financial distribution, the capital raised through inflation financing is a fictitious one, derived from the excess distribution of the public's income; this creates an unsettling effect on the inflationary process itself. Third, hidden financial distribution covers up the government's revenues and expenditures, the real state of the deficit, and the actual financial load borne by the economic system. Fourth, raising capital through hidden financing produces a distorted redistribution effect on distribution of the tax responsibility, resulting in an unfair distribution in revenue collection. Fifth, and most important, the mechanism used in hidden financing—inflation and distorted costs—damages most bases for financial distribution. These financial disadvantages will cause the nation's finances to be established on an unhealthy foundation.

#### B. Economic Disadvantages

The passive effect of hidden financial distribution is not limited to the financial area, but would have a counter-effect in many ways. In the first place, hidden financial distribution dilutes the central control the national budget has in the use of economic power, and weakens finance's regulatory control toward macroeconomics. Second, using hidden measures to raise capital—through such means as inflation, depressing prices, etc.—and attacking savings distorts the arrangement between comparative prices and resources, and damages the balanced growth of industry. On the other hand, such economic disadvantages also heighten the financial disadvantages of hidden financial distribution.

### III. A Policy To Deal With Hidden Financial Distribution

A general approach should be taken to make hidden financial distribution public. In concrete terms, the following can be done.

A. Two measures may be taken with respect to hidden financing. One is to provide certain economic compensation to the party responsible for hidden capital financing. Where the inflation tax is concerned, suitable measures of interest rate indexing and tax indexing may be adopted. Where the tax for agricultural price differences is concerned, financial allocations, low-interest loans, and lowered prices on industrial products for agricultural use may bring a return on part of the investment. While such economic compensation methods can eliminate certain passive effects of hidden financing, they cannot eliminate hidden financing itself. Design and operation of the system are quite complex, and new problems can appear (such as heightening inflation and more severe price distortion). Therefore, it is best to adopt the second measure, which is to eliminate the sources that hidden financing depends on—inflation and distorted prices—and to substitute them with taxes in general.

B. With a hidden financial deficit, the important thing is to change presently used statistical specifications, as reforms are being made to identify the revenue classes, double-entry budgets and separate tax systems, so that hidden fiscal deficits can be reflected in the books and provide valuable information for convenient budget analysis and fiscal policy preparation.

C. In the area of hidden financial expenditures, a table showing budget management of income and expenditures of tax revenue should be considered. When certain conditions are met, it should be listed with budget expenditures, and reviewed and managed accordingly. The financialization of credit does not exactly agree with the nature of credit capital, for it weakens a bank's business initiative, and reduces the economic use of credit capital effectively. An alternate approach would be for fiscal authorities to provide corresponding interest subsidies to banks shouldering the "financialization of credit," to compensate for banks' losses of interest, or even of principal. However, the most thorough method is still to remove unnecessary administrative interference in bank operations, so that banks can have full autonomy utilizing their business capital, and for them to take corresponding risk and responsibility. At the same time, expenditures for all kinds of real welfare benefits with cost differentials should be eliminated.

#### Footnotes

1. Stanley Fischer and Rudiger Dornbusch, *Economics*, Chinese edition, Vol. 2, p 354.

2. William Lewis, *Development Planning: The Nature of Economic Policy*, Chinese edition, p 131.



3. *1950-1988 Financial Statistics for China*, pp 97, 149.
4. JINGJI YANJIU [ECONOMIC RESEARCH] No 5, 1990 p 45.
5. World Bank, *1985 Report on World Development*, p 3.

### Guangxi Tax Chief on Using Tax Levers

92CE0107A Nanning GUANGXI RIBAO in Chinese  
24 Sep 91 p 2

[Article by Song Xihui (1345 6932 6540), Chief of the Tax Bureau for the Guangxi Autonomous Region: "Make Thorough Use of Tax Levers, Vigorously Advance Economic Development"]

[Text] Tax departments are one of the vital organs of government. The basic aim of socialist tax collection is to advance the development of production and develop economic services. The economy is the foundation. The economy determines taxes and taxes influence the economy. This is dialectical unity. Only when the economy is developed can there be ample sources of revenue. When tax work is well done, it can advance economic development. Therefore, when tax departments are fulfilling their responsibilities, the advancement of economic development must be both the starting point and the ending point of their work.

In the last few years, tax departments at all levels in Guangxi have been relatively clear and definite in their thinking about economic development services, and have put a lot of work into advancing production development and stimulating the national economy, achieving definite results. The first was to coordinate with and support Guangxi's systemic reforms in economics, education, technology, foreign trade, etc., adjusting some revenue policies as appropriate. Moreover, in accordance with national revenue policies and tax system regulations, they continued to devise a series of tax regulations to encourage and revive the economy, advance reform and opening up, and advance production development. According to incomplete statistics, tax abatements approved in Guangxi for hardship and support cases during the period of the Seventh Five-Year Plan amounted to more than 2 billion yuan, and export drawbacks for foreign trade enterprises came to 1.1 billion yuan. The second was for all echelons to devise plans specifying goals, tasks, measures and personnel, and focus on work to advance production. During the Seventh Five-Year Plan period, tax departments in all of Guangxi handled 4,957 projects to promote production, and increased revenue by 941 million yuan. The third was to make full use of extensive connections and information sources of the tax departments to transmit information for enterprises in various ways, act as a go-between and building bridges, stimulate business dealings, facilitate fund transfers, clear up "triangular debts," and help enterprises improve production and develop saleable products. But it should also be noted that in a few places thinking is still not very clear as to the guidance on using tax levers to advance production

development. They don't pay enough attention to this work and the measures they adopt aren't forceful enough. Therefore the work is developing unevenly. At the same time, Guangxi still does not have a complete and systematic plan for advancing production and increasing revenue. The work of advancing production is still done, in many places, in a hit-or-miss fashion, and results are not clear enough. Therefore, we must certainly, through this education program in developing production, see to it that the numerous revenue cadres and workers, especially leading cadres at various levels, further the solid establishment of economic construction as the focus of their thought, and consciously pursue their work around the basic mission of developing production, so that revenue work in fact turns toward economic development services, and they fulfill their duties and do their utmost to raise Guangxi's economy. Therefore, they must correctly understand and handle four relations.

First, correctly understand and handle the relation between strict observance of tax laws and economic development, and view tax laws as the basic guarantee and key to good revenue work. China's tax policies, laws and regulations were devised in accordance with the demand for the development of social production, and tax laws are consistent with the goal of economic development. Therefore, in our work we must uphold tax laws, and also pay attention to applying tax levers to promote production development. We must strictly enforce the unified regulations of both China and the Guangxi Autonomous Region; we cannot go our own way and introduce inconsistency into policy. As for practical problems that exist in production development, we must take the initiative to solve them within the limits of our authority, but when they fall outside our jurisdiction we must actively refer the matter to higher levels for solution.

Second, correctly understand and deal with the relation between income and conserving sources of revenue. As reform continues and economic construction continues to expand, the demand for funds increases year by year, and the mission of tax departments to collect taxes will also increase year by year. But if we don't base ourselves on developing production and only concern ourselves with the task of collecting current revenue, then sources of revenue will eventually dry up. Even if revenues increase one year, the next year they will decrease. Therefore, we must firmly correct only caring about revenue and ignoring production, and only caring about the present, and not the long-term. We must go the way of getting revenue by promoting production. Only in this way can we strengthen the stamina of tax collection, and guarantee the stable growth of income.

Third, correctly understand and deal with the relation between macroeconomic control and enlivening the microeconomy. We must strengthen the centralized management of tax-collection and macroeconomic control according to unified tax laws and the principle of centralized tax authority. At the same time we must

make full use of tax collection, under the guidance of China's macroeconomic policy, to help enliven enterprises. Speaking concretely, while observing unified tax laws, first make good and sufficient use of present national and regional policies to revive the microeconomy. Second, under the premise of centralized tax authority, use the management authority we have to promote production development. Third, while guaranteeing national revenues, grasp revenue dynamics, and pay attention to the need for enterprises to both support their financial obligations and develop production.

Fourth, correctly understand and deal with the relation between liberalization and stimulation and the intensification of oversight and management. The policy of liberalization and economic stimulation is for the sake of economic development; the intensification of oversight to maintain normal economic order is also for the sake of economic development; the two complement each other. We must pay attention both to promoting production development in policy and practice, and also to intensifying the oversight of collection, assuring that what should be collected is collected. We must also intensify oversight of tax abatements, make sure that tax abatements are used to develop production, form production capacity, and strengthen infrastructure. At the same time, we must also strengthen law enforcement and supervision in the economy, protect the national interest, and assure that reform and opening up proceed smoothly.

To elevate the work of promoting production and increasing revenue to a new level, we propose the idea of promoting production development by making economic construction the focus of the tax collection system in Guangxi. Tax departments at all levels have devised plans to promote production that are in keeping with their circumstances, establish a system of responsibility to achieve promoting production and increasing revenue, and decide on the five areas of projects, goals, personnel, measures and efficiency, so that the work of advancing production proceeds with planning, emphasis and in a step-by-step way, assuring that the work of advancing production is really done. According to Guangxi's industrial policy, from now on the main point in advancing production will be supporting technical transformation and technological progress at enterprises, adjusting the product mix, developing new products,

stimulating large- and medium-sized enterprises, promoting the development of town and township enterprises and the export-oriented economy, and assist enterprises in producing saleable products and raising economic efficiency. We must ceaselessly improve methods to promote production. We must pay attention to combining the special characteristics of tax work, to fully using the advantages of tax departments in their extensive connections, sources of information, be familiar with enterprise production and management and financial management, and promote production from the aspects of policy, work, information, knowledge, management and so forth. Moreover, we must genuinely strengthen prior investigation and verification to improve results in production advancement projects. Tax departments at all levels must strengthen leadership and carefully organize. Tax bureaus at the county level and above must establish leadership squads and production advancement offices. Bureaus at the grass-roots level and tax offices must establish production advancement squads and establish a complete system for production advancement work, including a case evaluation system, a goal responsibility system, a leadership coordination system, a statistical report system and an appraisal and commendation system, and carry out standardized management step by step.

#### **Effort Clears 30 Billion Yuan Debt**

*OW1210124591 Beijing XINHUA Domestic Service in Chinese 1108 GMT 9 Oct 91*

[Text] Beijing, 9 Oct (XINHUA)—According to information gathered by reporters from the office of the State Council's leading group for clearing "Chains of Debt Default," the nationwide effort to continuously liquidate debts incurred on fixed assets investment has proceeded smoothly since its initiation on 20 September. As of 30 September, 43 provinces, autonomous regions, municipalities directly under the central government, and cities with independent economic decision-making authority across the nation had injected a total of 15 billion yuan of bank loans into the effort and raised 1.44 billion yuan of funds. These represent 81 percent and 15 percent, respectively, of the prescribed amounts for cash infusion and cash collection. In the 10 days of continuous liquidation since 30 September, "debt chains" totaling 31.8 billion yuan were shattered across the nation, and inter-provincial debt repayments totaled 5.95 billion yuan. Consequently, 1.9 yuan were liquidated for every one yuan injected. The State Council's leading group for

clearing "Chains of Debt Default" has urged all localities to step up follow-up inspections of the continuous liquidation effort and to supervise every aspect of it to ensure rational utilization of debt-relief cash, strive to liquidate

three yuan or more for every yuan injected, and strictly prevent the loss and misuse of debt-relief cash. The following shows progress in continuous debt liquidation in various localities:

**Table of Nationwide Cash Infusion and Continuous Liquidation of "Debt Chains"**

	From 20 to 30 September 1991			Unit: 10,000 yuan
[Items A, B, C, and D below respectively denote the ratio of loans injected to the total amount planned for continuous liquidation, the ratio of self-raised funds to the total amount planned for continuous liquidation, the total liquidated amount, and the rate of liquidation (the ratio of every yuan injected to the amount liquidated)]				
Region	Item			
	A	B	C	D
[first row of figures do not specify region/area]	80.97	15.17	3,179,330	1.94
Beijing Municipality	85.27	25.80	120,179	2.17
Tianjin Municipality	61.55	25.68	85,963	2.67
Hebei Province	99.77	44.71	171,659	1.75
Shanxi Province	100.00	7.36	148,137	1.18
Inner Mongolia Autonomous Region	95.06	3.41	122,889	1.89
Liaoning Province	90.88	64.36	74,592	1.34
Shenyang City	100.00	100.00	41,103	3.13
Dalian City	100.00	107.00	24,488	2.28
Jilin Province	78.98	42.32	15,042	1.18
Changchun City	100.00	100.00	12,163	1.39
Heilongjiang Province	100.00	4.26	37,445	1.25
Harbin City	99.00	82.24	30,938	3.60
Shanghai Municipality	87.70	0.39	195,578	4.62
Jiangsu Province	95.95	7.04	197,335	2.21
Nanjing City	38.34	9.54	25,309	3.84
Zhejiang Province	21.71	1.85	38,907	3.60
Ningbo City	100.00	7.47	3,546	2.66
Anhui Province	82.44	9.83	119,620	1.91
Jiangxi Province	81.78	1.34	54,867	1.56
Fujian Province	27.09	2.25	10,487	2.27
Xiamen City	36.40	21.28	301	
Shandong Province	96.44	19.82	219,060	1.45
Qingdao City	99.99	64.83	33,315	2.63
Henan Province	92.98	7.78	267,139	2.10
Hubei Province	100.00	92.30	124,349	1.50
Wuhan City	89.00	7.76	51,059	3.51
Hunan Province	99.15	5.45	140,205	2.51
Hainan Province	6.04	0.00	448	1.24
Guangxi Autonomou Region	55.42	22.56	27,380	0.86
Guangdong Province	36.47	18.25	31,310	1.07
Guangzhou City	83.58	95.76	21,221	1.90
Shenzhen City	34.27	0.00	716	0.06
Sichuan Province	95.27	4.80	244,361	2.43
Chongqing City	100.00	9.71	65,086	2.69
Chengdu City	105.01	3.83	74,098	2.73

Table of Nationwide Cash Infusion and Continuous Liquidation of "Debt Chains" (Continued)

	From 20 to 30 September 1991			Unit: 10,000 yuan
[Items A, B, C, and D below respectively denote the ratio of loans injected to the total amount planned for continuous liquidation, the ratio of self-raised funds to the total amount planned for continuous liquidation, the total liquidated amount, and the rate of liquidation (the ratio of every yuan injected to the amount liquidated)]				
Region	Item			
	A	B	C	D
Yunnan Province	20.74	0.79	21,337	1.88
Guizhou Province	100.99	34.05	43,616	1.55
Shaanxi Province	100.00	22.74	136,527	1.85
Xian City	81.74	23.17	45,654	3.95
Gansu Province	48.36	0.79	46,797	1.42
Qinghai Province	20.64	4.01	4,378	0.67
Ningxia Autonomous Region	83.47	25.75	39,751	2.23
Xinjiang Autonomous Region	60.72	2.96	10,975	1.09

(Note: The ratios of loans injected and self-raised funds to the planned total amounts are expressed in percentages)

### State Treasury Bonds To Surpass Planned Figure

OW2511112391 Beijing XINHUA in English  
1050 GMT 25 Nov 91

[Text] Beijing, November 25 (XINHUA)—The total sum of state treasury bonds issued this year is expected to surpass the planned figure of 10 billion yuan.

This was revealed today by an official from the Ministry of Finance.

The official also disclosed that the sum of state treasury bonds to be issued next year will increase by a big margin.

More and more Chinese citizens are becoming enthusiastic in purchasing state treasury bonds because they take it as a kind of investment with good returns on account of the higher interest rate, the official said.

China has issued 120 billion yuan of state treasury bonds since 1981.

In tandem with the sale of bonds, the country's bonds market has developed rapidly.

According to statistics, 40 billion yuan worth of state treasury bonds has been traded, accounting for 90 percent of the total business volume at the bonds market.

## INDUSTRY

### Heavy Industry Grows Faster Than Light Industry

HK1411102791 Beijing CEI Database in English  
14 Nov 91

[Text] Beijing (CEI)—China's heavy industry recorded a growth rate of 16.3 percent in October this year compared with 12.2 percent in the light industrial sector, according to the State Statistical Bureau.

The growth rate is 3.7 percentage points higher than that of September with an output value of 105.53 billion yuan.

The rapid growth rate can be attributed to the acceleration of production of energy and raw materials and the rapid growth of the output of machines and electronic products. Energy production rose 4.5 percent in October, the highest rate in the year. Coal output went up 5.8 percent.

Power output grew 10.1 percent. Output of the thermal power sector rose 11.9 percent and that of the hydropower sector 2.8 percent.

Steel, rolled steel, ferrously, ten kinds of nonferrous metals, synthetic ammonia, synthetic fiber monomers, timber, artificial board and cement all registered faster growth rates than in the first nine months.

Alternating current motors, industrial boilers, machine tools and internal combustion locomotives all recorded higher growth rates.

The light industrial sector, however, began declining in October compared with the previous nine months, mainly due to the control imposed on the textile industry. In October, the output of yarn and cloth recorded 11.9 percent decreases from the previous month. Besides, decreases to various degrees were registered for clocks, radios, tape-recorders, washing machines, electrical fans, spirits and cigarettes.

The growth rates of color TV sets, refrigerators and electrical cookers slowed down faster than other products.

The cumulative growth rate of light industry in the first 10 months was 14.7 percent and that of heavy industry was 13.1 percent. The ratio between heavy and light

industries in the gross industrial output during the period was 48.4:51.6 (based on the constant prices of 1990).

### **Industrial Production Increases 14.3 Percent in Oct**

*OW0811113691 Beijing XINHUA in English  
0922 GMT 8 Nov 91*

[Text] Beijing, November 8 (XINHUA)—China's industrial production jumped 14.3 percent to 204.5 billion yuan in October, the State Statistical Bureau reported here today.

However, specialists warned the growth rate might be too fast and called for review of the developing situation.

Industrial production grew 13.9 percent from January to October, while retail sales rose 12.8 percent in the first nine months of this year. The investment for fixed assets jumped by 21.8 percent in the state-owned industrial enterprises.

The state-owned sector of the economy grew at an annual rate of 9.5 percent while independent collectives grew 19 percent and rural industry 26.7 percent.

However, industrialists noted that the excessively fast growth rate and slow readjusting of the industrial structure have resulted in low economic efficiency in industries.

### **Rapid Development of Textile Industry**

*HK1311062691 Beijing CHINA DAILY in English  
13 Nov 91 p 4*

[By Zhai Feng: "Textile Firms Moving To End Slump"]

[Text] China's textile industry is dragging itself out of the quagmire in which it has been bogged down.

"Managers of textile mills are being asked to improve technology, and develop new and more marketable products," said Qian Yongqing, an official of the Ministry of Textile Industry.

Textile factories with outdated machines, turning out shoddy goods, and unable to improve, will probably be closed down, Qian said, in an interview with CHINA DAILY.

However, managers of the industry are really the nation's heroes, and everybody is indebted to them.

Not long ago, the nation had to use coupons to ration cloth, and men and women, old and young usually wore similar blue garments in winter. It was very possible for taking a girl for a man and becoming the butt of jokes.

But now you will see a completely different picture if you take a walk in any of China's cities. Not only the young but also the old wear colourful clothes in novel styles.

The textile industry has grown at a pace of nearly 17 percent during the last 10 years, and has become a cornerstone of the national economy.

This rapid development, however, has also created a number of problems, which eventually have plunged the industry into a tailspin in 1989 and its economic efficiency has declined further this year, Qian noted.

The Ministry data show that 37 percent of the textile mills are running at a loss, and profits of the industry fell by over 24 percent during the first half of 1991, compared with the same period of last year.

The Minister of the Textile Industry, Wu Wenying, recently blamed the drop in the economic returns of many state-owned textile factories on the stockpiles of unsold products.

The country's total inventory of textiles is valued at 20 billion yuan (\$4.1 billion), equivalent to 10 months domestic sales, according to an ECONOMIC DAILY report.

"Although the shortages of raw materials have kept many textile mills running at partial capacity, the stockpiles of textiles have continued to grow," Qian said.

According to the State Statistical Bureau, the cotton yield last year rose to 4.3 million tons, up 520,000 tons from the previous year, but still couldn't meet demand.

It is estimated that the industry can consume more than 5 million tons of cotton a year.

Small textile mills, particularly those operated by townships, have mushroomed throughout the country during the past 10 years. There are now over 50,000 township textile factories, accounting for 60 percent of the total.

While it is true these small enterprises have boosted local economies and become major contributors to local revenues, many of them use old equipment removed from bigger state-owned mills, and waste raw materials.

If they run at full capacity, the small cotton mills alone can almost eat up the annual cotton yield, said Qian Yongqing.

As for state-owned mills, the government used to ensure they got all the raw materials they needed, but now they are faced with a rapid drop in the promised quotas, and have to buy a lot on the open market.

For example, the government promises to give Shanghai, one of the country's most important textile industrial centers, 250,000 tons of cotton every year, but the city can obtain only half that amount and has to buy the rest at market prices.

Zhou Caiyu, director of the Department of Light and Textile Industries of the State Planning Commission, said, "Production capacity of the textile industry has

swollen during the Seventh Five-Year Plan period (1986-90)," putting more strain on raw materials supplies and adding to the stockpiles.

The number of spindles has risen to over 30 million, at least 10 million more than needed, he estimated.

PEOPLE'S DAILY reported that nearly one-third of all the spindles are obsolete, 30 percent of the 8 million looms ought to be renewed, and 60 percent of printing and dyeing machines are on "extended active duty."

Worn-out facilities are keeping out advanced technology and preventing the development of new products.

Moreover, the industry is feeling the pinch of fund shortages, even though it has invested \$8.4 billion to improve technology during the last 10 years.

Prices of raw materials have spiralled, taking production costs up with them. Growing stockpiles have also got in the way, drawing off capital that the factories want to use for investing in new machinery and frustrating an effort by the government to increase product prices by 30 percent.

Minister Wu acknowledged that some areas are reluctant to scale down output, though the Ministry has repeatedly urged them to keep a tight rein on stocks.

It is difficult to limit the production of local textile factories, since they are major earners of local revenue.

In addition, local governments fear that social stability will be undermined, if loss-making factories are shut.

But the Minister emphasized that the Ministry will take a hard line on reducing stockpiles and replacing old plants.

If textile factories burdened with huge stocks of unsold goods refuse to slash production and apply new technology, banks will be asked to lend them less money, and energy supplies will be cut.

Vice-Minister Wang Zengjing said that to encourage adjustments in the textile industry, the government will offer tax incentives for mills with plans to upgrade technology.

Depreciation rates for machinery will be increased, and the write-off period shortened.

Wang said that the country's textile industry renewed its equipment every 16 years, which was too long. Developed countries usually replace textile machinery every 10 years.

The country will pump more money into state-owned textile mills to help them to install high technology, and will give top priority to Shanghai, Qingdao, Tianjin, and other old centres of the textile industry.

Minister Wu was adamant that textile mills must dispose of obsolete machinery as scrap iron, and said they would be punished if they sold it to other factories.

To keep development on the right track, the government will implement a licence system, and enterprises without a licence from the Ministry will be stopped, she added.

### **Preparations for First Robotic Assembly Line**

*OW2810142691 Beijing XINHUA in English  
1346 GMT 28 Oct 91*

[Text] Guangzhou, October 28 (XINHUA)—A feasibility study for China's first fully automatic robotic assembly line has been completed by the Huaying electric fan factory in Foshan City, Guangdong Province.

According to the factory, installation of the electric fan production and assembly line will begin in February 1992 and will be put into trial operation next year.

The Huaying fan factory, one of China's 10 major rural enterprises, has an annual production capacity of over four million electric fans, and its products are sold throughout China.

In April of this year, China's "863" high-technology planning committee for automatic robotic assembly lines chose the factory as the site for the country's first such line.

The factory will install three robot controlled lines, the first of which will be a 20-meter line with 14 working stations. The assembly process will be controlled by five robots, and will have numerous monitoring, detection, automatic control systems and sensors.

When the new line goes into operation the company will be able to reduce manpower by some 60 percent and the number of substandard products will be reduced by 10 percent.

The robotic assembly line was developed by the South China Institute of Science and Engineering.

### **Tianjin Plant Produces Bicycles With Germany**

*OW2011075991 Beijing XINHUA Domestic Service  
in Chinese 0531 GMT 18 Nov 91*

[By reporter Yang Like (2799 3810 4430)]

[Text] Tianjin, 18 Nov (XINHUA)—The Tianjin Sipu Bicycle Company has produced 1 million Sprik bicycles and paid over 45 million yuan of profit taxes during the last three years, topping all bicycle manufacturers in the country in terms of per capita tax payment, output of quality goods, new products, and other economic and technical indexes.

A joint venture with Germany, the bicycle company is also the first company in the country using robots to manufacture bicycles. Since the quality of its goods is controlled by a standardized production system, the

company has been able to dedicate its efforts to developing new products and it is introducing four new products each month on average. Consequently, the company is able to sell all the bicycles it produces in a fiercely competitive market.

It has been learned that Sprik bicycles have become new competitive products in Tianjin. The over 70 models of bicycles under six categories are selling in more than 20 provinces, municipalities, and autonomous regions at home and in Australia and eight other countries and regions.

## CONSTRUCTION

### Real Estate Business Increasing, Market Developing

OW0911024691 Beijing XINHUA in English  
0203 GMT 9 Nov 91

[Text] Beijing, November 9 (XINHUA)—Real estate transactions in China continue to develop rapidly and the country's real estate market is gradually taking shape.

The Beijing based MARKET NEWS reported today that more than 3,000 enterprises throughout the country are now engaged in real estate related activities.

Last year alone the country constructed over 100 million square meters (sq m) of commercial housing which generated a sales income in excess of 20 billion yuan.

Many cities now have markets which offer housing for sale or for lease, as well as contracts for land-use rights. In 1990, the country's over 1,000 real estate markets concluded transactions on 40 million sq m of housing floor space valued at over 7.6 billion yuan.

## LABOR

### Article on Labor Reform, Unemployment Insurance

92CE0025A Dalian CAIJING WENTI YANJIU  
[RESEARCH ON FINANCIAL AND ECONOMIC  
PROBLEMS] in Chinese No 8, 5 Aug 91 pp 32-35

[Article by Ding Youshuang: "Unemployment Insurance Called for in Labor Reform"]

[Text]

#### I.

After 10 years of trials and hardships, labor reform has finally, with difficulty, taken its first two steps. What concerns people now is that the third step in the reform, the goal of which is to invigorate the fixed-wage system, has only gone half way. Taking the full step has been hindered by an overly tense environment and too many roadblocks.

The achievement of the first part of the third step was conducting in some enterprises pilot projects involving

optimized labor groups. However, the main problem has been finding an outlet for excess personnel at these enterprises. It estimated that there are 15-20 percent of excess personnel in more than 80 percent of state enterprises nationwide. This means that 15-20 million employees are at their posts in "disguised unemployment." Optimized labor groups on a comprehensive scale would inevitably shift a large amount of disguised unemployment to overt unemployment. There are only two ways out: push them out into society or have the enterprises absorb and place them. It is well known that, as a practical matter, we have now opted for the second choice. Experience has shown that, under present conditions, this is indeed a feasible method. However, what is feasible is not necessarily what is best. After having following this road for a while, we have run into a number of problems. One of which has been that excess personnel, whom the enterprises have absorbed and placed on their own, have substantially undermined the enthusiasm and effectiveness of the optimized labor groups. The original purpose of the optimized labor groups was to organize labor in the enterprises on a rational basis. However, because it is impossible to dismiss excess personnel and because persons subject to cutbacks still have to be cared for by their enterprises, there is no way to fully achieve the goal of improving efficiency. A second problem is that absorption by enterprises themselves of excess personnel detracts from arousing the enthusiasm of the optimized labor groups that the enterprise has developed; and it goes without saying that still having to place persons subject to cutbacks is asking for trouble. If it is not done well, those subject to cutbacks will be made to suffer. Who can still have any enthusiasm? A third problem is that absorption of excess personnel by the enterprises themselves is likely to create a new "Matthew effect" [ma tai xiao ying, 7456 1132 2400 2019]. Looking at it from the standpoint of how best to deploy labor and capital goods, those enterprises that most need optimized labor groups and cutbacks in excess personnel are those whose operations are in a slump and whose production is inadequate. These are exactly the type of enterprises that are unable to launch this type of action because they are incapable of opening up new employment opportunities. The enterprises which do a good job of making cutbacks and placing excess personnel are those which are relatively efficient and financially solid. It is easy for them to place excess personnel. It is a case of "the rich getting richer, and the poor getting poorer." This is why a new "Matthew effect" is formed. A fourth problem is that absorption of excess personnel by the enterprises themselves aggravates the "miniature society" syndrome that afflicts enterprises. The principle means by which enterprises absorb excess personnel is to initiate projects in the service trades. Everyone knows that, because employment and welfare have for a long time been bound together, the "miniature society" problem in enterprises is now extremely serious. By having enterprises also place excess personnel is now forcing them to initiate tertiary industries. This is not only economically

inefficient, it aggravates the "miniature society" syndrome and has an extremely negative effect on invigorating enterprises.

It is quite obvious that absorption of excess personnel by the enterprises themselves is not the best way out. Not only does it have a large negative effect, it is becoming less and less of an option. From the standpoint of the enterprise, the best way out would be to push them into society and let society reassign and place them.

It looks as if we are at an intersection of difficult choices. We need both vigorous enterprises and a stable society. Indeed, society does not now have the capability of receiving all at once the entire complement of surplus enterprise employees. The risk of pushing the excess personnel out into society is too great. Nevertheless, the need for optimized labor groups to increase enterprise vitality is urgent. There is only one way out, and that is to release into society, by stages and to the degree to which society can tolerate rates of noticeable unemployment, the disguised unemployed of enterprises. This will gradually shift their employment status from partly visible to visible. Specifically, with enterprises in the forefront and with workers and society assisting, they together must bear the unemployment pressures that optimization brings. Later, a gradual transition must be made from primary reliance on enterprises absorbing excess personnel to society supporting them, thereby freeing enterprises from the two difficulties of cutbacks and absorption. The idea of "not wanting to push the surplus personnel" problem onto society," although good for social stability, has a negative impact on enterprise development. It makes difficult structural reform of the urban economy, the key link of which is increasing enterprise vitality. The effect of an economy lacking in vitality will, in turn, be damaging to social stability.

While considering the multiple requirements of social stability, structural reform, and enterprise development, part of the unemployment problem from surplus enterprise personnel is bound to be pushed onto society and society will completely assume the trend toward development. This will somewhat increase noticeable unemployment in cities and towns, somewhat raise noticeable unemployment rates, and somewhat decrease enterprise disguised unemployment. The economic efficiency of enterprises will be comprehensively improved and society and the economy will, as a result, be able to proceed on a favorable track.

If we take this route, aside from having to cultivate and develop a labor market, perfect regulatory levers to govern the work force, increase public acceptance of overt unemployment, and take vigorous measures to organize coordinated career and professional training, it is important that we have a "shock absorbing apparatus" such as unemployment insurance. Otherwise, it will be impossible to provide the unemployed with unemployment insurance and it will be impossible to easily push excess personnel out into society. It is obvious from this

that establishing and perfecting a system of unemployment insurance remains absolutely essential.

## II.

For a long time, China has implemented a system of planned management of the work force involving the three areas of employment, welfare, and security. The basic features of the system, which are determined by the goals of social welfare and social security, can only be realized through the modality of employment. This is why we can call it an employment-dependant system of welfare and security. Constrained by a relative lack of social wealth and despite the government having amassed almost the entire resources of society, it is still not possible to simultaneously satisfy the demands of social development and security. As a result, we have to pay particular attention to the policies we select. They will inevitably shift some of the responsibility. Social welfare policies and welfare projects worked out by the government will emerge and assume responsibility for helping ordinary welfare projects in industry. Meanwhile, much of the burden of special welfare will be shifted to various social organizations which will assume responsibility, doing what they can to help. It is natural that enterprises have become the locale for employment-dependant welfare and security. Consequently, the salient feature in the organizational system of China's enterprises, aside from their economic function, is that they combine in a single body the social functions of "employment, welfare, and security." Once people are employed in an enterprise, they and their family members can enjoy an entire gamut of "cradle-to-the-grave" welfare and security benefits which include clothing, food, shelter, jobs, education, sports, and entertainment and which extend from childbirth through old age and illness and until death or until family members graduate from school and find their own employment.

Under a system in which employment means both welfare and security, enterprises cannot dismiss employees and cutback on excess personnel based on requirements and changes in production, because once these people are removed from their enterprise, their welfare and security are lost. If we are to guarantee social stability and people's basic needs, the government cannot permit unemployment nor can employees accept it. This results in enterprises being overrun with excess personnel and gives rise to everyone eating out of same big pot. The effect is that the enterprises bear a heavy burden. They undergo indescribable hardship. To maintain their situations, many enterprises have to be extremely conservative and put off renovating equipment. This makes it impossible to upgrade the quality of their products and improve their economic efficiency. What is even more important is that, by greatly lowering the quality of the work force, we create an overall decline in labor in society as a whole.

If we review and ponder the course of 10 years of reform, in particular the experience and lessons gained from comparing the structural reform of the rural economy



with that of the urban economy, we can clearly see that the lower the standard of welfare (for example, in the countryside), the quicker reform progresses and the more significant are its successes. Conversely, the higher the standard (for example, in the cities, especially in the large cities), the slower reform progresses and the smaller are its successes. In fact, it is the qualitative differences between the rural areas and the cities in their standards of welfare that have decided the fate of reform in the two places. Further proof of this is that, generally speaking, the economic results of "three kinds of partially or wholly foreign-owned enterprises" and township and town enterprises are, at present, far above those of state enterprises. This shows that the low efficiency of the traditional structure is, to a great extent, created by the inefficiency of the employment-dependant welfare and security system. This system is an out-and-out infringement on the pursuit of economic efficiency. The World Bank inspection report entitled, "China: Reform of a Social Security System in a Socialist Economy" presented to the government pointed out: "China's social security system is the chief obstacle to a more efficient operation of its enterprises.... China's economic reform has developed to the point where it is necessary to reform its social security. This will encourage enterprise reform, tax reform, and price reform, encourage the circulation of labor in a changed economy, and give impetus to China's economic reform, thereby benefitting development and growth of the national economy."

The establishment of unemployment insurance means that an enterprise's hiring and firing of its labor force will be based on its efficiency and that questions of social fairness such as welfare and security for the unemployed will be resolved by the state. Meanwhile, the state will still have to regulate the labor market through various economic policies. An enterprise's "operations, that is, the pursuit of efficiency" and the state's "regulation, that is, giving consideration to fairness" are mutually linked. We should use reform to promote stability and use stability to safeguard reform by establishing mechanisms to absorb and cushion the shock through the building up of a "big pot" on a social scale (a social security system) which will break up the "two big pots," encourage structural readjustment (the shift of factors between industries), and promote the emergence of other reform measures.

### III.

The aim of economic structural reform is to mold a new socialist commodity structure which is both efficient and marked by equality, and which will organically combine the functions of planning and regulation with market mechanisms. It should be noted that unemployment is part of market competition in the service of efficiency, the aim of which is to give internal economic rationality to the economic structure, whereas unemployment insurance itself is part of planning and regulation. Its purpose is to safeguard social stability and guarantee social fairness. This type of fairness is neither total equality nor is it automatic equal opportunity for all. It is rather a

kind of compensatory fairness arrived at by means of insurance. Unemployment insurance is the result of the government interfering in economic life. It is regulation of the market, and both a remedy and correction to the indiscriminate nature and dangerous consequences of free competition. It embodies the positive function of state planning and gives expression to macroeconomic and organic principles.

Unemployment insurance serves two functions. It provides the unemployed with a compensatory income which satisfies their basic needs and stabilizes social order. It plays the role of an "internal stabilizer." It also ensures normal operation of social production by guaranteeing and encouraging unrestricted turnover and a choice to both parties in labor relations.

The key problem in unemployment insurance is establishing a fund. As an important part of the social security system, unemployment insurance has huge and complicated expenditures. To guarantee them, it has to have a fund system. Considering the overall climate of our situation nationally, the contradiction between the burdens we have to bear and what is needed in the way of unemployment insurance is acute. China's basic situation is characterized by a large population, a poor foundation on which to build, low standards of productivity, a poor economic base, and uneven development. At the forefront of the situation are a shortage of jobs, poorly qualified employees, enterprises with onerous burdens, the government's financial resources in critical condition, the simultaneous existence of overt unemployment with disguised unemployment which was created in the past by state enterprises making excessive placements for large numbers of excess personnel, and structural unemployment produced by scientific and technical development and improvement and rectification existing side by side with the total amount of unemployment created by a very large population. These pressures on the financial administration of unemployment insurance are constantly on the increase—a constraint not easily overlooked. Coming at the same time, the estimates of labor and personnel departments are hard to even imagine. First, the state must put out 10,000 yuan to make placements for each labor force in town and city enterprises owned by the whole people and 8,000 yuan for collectively owned enterprises. Present contracts require placing 6 million persons annually at an expenditure of 3-400 million yuan in funds. If we were to calculate the 2,000 yuan in wages and labor insurance and welfare spent each year for each of the 15-20 million "persons on the job but without employment," it could come to the vast sum of 50 billion yuan, equal to almost half the financial revenue turned over to the state by all enterprises. If we add together the annual state placement expenses, it would equal one-quarter to one-third of state budgetary revenue. If we were to move this vast sum of money spent for placement, wages, and welfare into an insurance fund (not just an unemployment insurance fund), it would not be necessary to add

much money, merely to restructure or transform somewhat the issues involving the labor employment system and social security.

In addition, disguised unemployment greatly reduces enterprise use of productive time. At present, enterprise productive time lasts about six hours at the longest and only four hours at the shortest. Model surveys by the state Labor Scientific Research Institute show that, on the basis of quotas fixed in the fifties and sixties, the average time each person in China's industrial enterprises actually spends working only comes to about six hours per shift. The director of the Shijiazhuang No. 1 Plastics Plant, Chang Xingrang, drawing on foreign managerial experience in the eighties and based on strict methods of calculation, believes that, prior to the full-load work method having been imposed, productive work time of workers throughout the plant did not even come to two and one-half hours, despite the enterprise's quotas being fulfilled. From this we can see that, in many of China's enterprises, at least more than half of the work time, along with the workers' best years, are wasted. Moreover, because of this, the state must suffer annual revenue losses of several tens of billions of yuan. After the establishment of a labor market and management contracts, not only will several tens or several hundreds of billions be recovered by giving workers the main position, but labor productivity and qualifications will be improved and levers of economic efficiency established as well. In addition, this will similarly benefit our unemployment insurance fund.

Specifically, we have to establish and perfect a three-way unemployment insurance system in which the state, the unit, and the individual together assume the risks. The state's portion would include the main part of social insurance that is included in unemployment insurance. It would be responsible for raising money for the fund, regulating it, and making dispersals from it. Enterprises (including state, collective, and individually managed enterprises), as the direct beneficiaries of an unemployment system, would be obligated to pay an unemployment insurance tax of 1 percent of the total amount of standard wages of all its workers and staff personnel. In addition, the enterprise would turn over to the unemployment guaranty fund one-half to one-third of the standard wages of the surplus personnel that it had moved out into society. This could also be looked upon as an economic stimulus to employment stability that would be highly instrumental in keeping enterprise production within bounds. Individuals, beginning from a certain work day, would each month contribute 1 percent of their standard wages to the state for insurance. All individuals who have paid into the state's unemployment insurance, whether they are workers in enterprises run by the state, collectives, or the three kinds of enterprises or whether they are employees of individually owned enterprises, would have the right to the benefits of unemployment insurance.

The dispersement of unemployment compensation is a complicated topic. It involves such questions as income levels needed to maintain living standards, the relationship between unemployment compensation and previous income and previous level of productivity, appropriate encouragements to work, and time limits for compensation.

China's unemployment insurance system and its adherence to secure living standards, which are decided by the quality of social insurance as well as by the country's current situation, presuppose the principle of remunerative production. In paying unemployment compensation to temporarily unemployed workers, this principle can specifically define the basic standard of living that must be secured for them by economic structural reform. However, the system itself must encourage workers to resume work while contributing to enterprise development and a rational turnover of the work force. This is why unemployment compensation should be low and be short term. Specifically, compensation should be higher than the top level of assistance currently paid to those living in distress and lower than the lowest standard wages for the age group involved. Generally, it can be kept at about 60 yuan. Appropriate adjustments in the length of time compensation is paid can be made on the basis of current rate of overt unemployment. Generally, this is one year. After one year, workers must, for a period of time, have engaged in qualifying work (for example, at enterprises run by the state, collectives, the three kinds of enterprises, or licensed individuals) before they can again be eligible to receive unemployment compensation.

As a component of social insurance, unemployment insurance should be administered by a special organizations. They would be responsible for such functions as collection of premiums and payments, administration and overall planning of the fund, registering the unemployed and screening their qualifications for compensation, making dispersals, and accumulating fund investments. In China, we should consider labor and personnel departments as organizations for administering unemployment insurance.

If we are to make unemployment insurance work well and make its structure and scope coincide with the structure and scope of unemployment, we have to establish a system of scientific forecasting which foretells and analyzes the needs of unemployment insurance and its structural changes and analyzes the causes of unemployment and its attendant repercussions so that we can make the proper response. At the same time, forecasting, understanding, and becoming familiar with changes in the needs of employees on the job and retired employees with respect to social insurance, enables the state to act early and make proper plans to prevent being taken by surprise and to provide preventive measures.

**Article on Labor Resource Disposition**

*HK1311011191 Beijing GUANGMING RIBAO  
in Chinese 18 Oct 91 p 3*

[By Yang Yongzhong (2799 0737 0022): "Tentative Ideas on New Labor Resources Disposition Mechanism"]

[Text] Whether labor resources can help realize optimization of the supply-demand structure and microeconomic combination in a comprehensive way mainly depends on the disposition mechanism. Therefore, establishing a new labor resources disposition mechanism combining planned disposition with market regulation should be regarded as the main target for reform of China's labor system in the next step.

In China, a traditional form of labor resources disposition is disposition by planning, which is mainly characterized by the state monopoly of all macroeconomic policy decisions. Since reform was carried out, this traditional labor resources disposition system has been changed and the labor market regulation mechanism has begun to work in those areas where the traditional system is comparatively weaker. However, labor planning and labor market are still in a state of separation. Once imbalance occurs in the enterprise labor forces' supply-demand structure, labor forces will still not be effectively deployed in the labor market due to the many restrictions placed by the labor planning system. Another main problem for the traditional labor resources disposition mechanism is the slow transmission of information which obstructs the transmission and feedback channels for the disposition of labor resources. Thus, enterprises will find it difficult to bear the burden caused by the increasing "surplus labor." However, despite all this, the state will continue to assign laborers to such enterprises who cannot but accept this mandatory assignment. As a result, the state has to make the greatest possible efforts to deploy the new labor forces and the enterprises have to accept the "surplus labor" to the greatest extent.

At present, although great achievements have been made in labor system reform, there are still a series of problems. First, in labor system system, greater attention has been paid to its form than to its practice and there is still not a clear train of thought regarding the establishment of a main body for the labor market and perfection of the market mechanism. Second, there are still no effective measures to solve the existing difficulties in reform and people still dare not touch the system of "state monopoly for deploying and assigning labor resources," which is the core of the traditional labor planning structure. Third, there are still insufficient coordinated measures for labor system reform in relation to the socioeconomic, political, cultural, and other fields. Therefore, it is of vital importance to carry out labor system reform in a coordinated manner with the disposition of labor resources as the main target.

China is faced with a grim employment situation at present. In the next decade, the problem of labor supply

exceeding demand will continue to exist. To rationalize labor resources disposition, it is necessary to optimize not only the microdisposition but also the macrodisposition of labor resources. The following are the main ideas for this work:

First, it is necessary to take effective and practical measures to strengthen macrocontrol of China's labor resources and achieve an overall balance, and structural balance, in the disposition of labor resources on the basis of optimizing economic returns. Meanwhile, it is necessary to create an external environment for fair competition in order to rationally dispose labor resources. The standards of action and basic principles which should be observed by all economic entities in handling labor relations, should be clarified in the form of a law. When implementing macroeconomic policies, it is necessary to pay special attention to implementing the financial policy, the monetary policy, the policy on distribution of income, the industrial policy, and the consumption policy, so that the optimization of labor resources can be realized in concrete ways.

Second, it is necessary to reform the labor planning and management structure and establish a new labor relationship characterized by two-way selection between the laborers and employers. The government's labor planning should generally be a guiding planning, playing the role of indirect regulation and control through various economic levers, such as tax collection and wages. Under some special conditions, for example, in order to provide sufficient laborers for construction of the state's key products or to deal with certain eventualities, administrative and mandatory measures can be adopted to use labor resources. The labor planning of various localities must be worked out in light of the needs of local economic development and must be suited to the state's labor planning. It is especially necessary to establish a regional labor resources regulation and control system for cities and towns so as to control the scale and speed of transfer of labor forces from rural areas to cities and towns.

Third, it is necessary to make positive efforts to improve the employment system in various enterprises, establish a microeconomic basis for rationally deploying labor resources, harmonize the relationship between the state and the workers, and strengthen ties between the market and the workers. At present, it is necessary to gradually clarify the relationships between the enterprises, the state, and the workers while implementing the contract system and gradually change regular workers to contract workers. It is then necessary to gradually eliminate the "iron rice bowl" and enhance the sense of competition in the laborers by optimizing the enterprises' labor organization and strengthening management so that the vitality of enterprises can be further enhanced and their economic returns further increased.

Fourth, it is necessary to further develop and perfect China's labor market and establish a "growth point" combining labor resources planning and market regulation. At present, it is necessary to further expand the volume of the existing labor market, establish a multi-level labor regulation and management system with labor service companies as the main body, and gradually reduce administrative interference so that the role of regulation and control of market mechanism can be

brought into fuller play. At the same time, it is necessary to make continuous efforts to perfect the social services system and network for disposition of labor resources and provide both the labor supply and demand sides with the necessary information, guidance, and professional training. Besides, it is necessary to strengthen management of the labor market and further improve the regulations and order, so that it can operate in good order under the law.

Fifth, it is necessary to promote the coordinated reform of the social insurance system to provide a social guarantee for the establishment of a new mechanism for labor resources disposition. The main task is to establish an insurance system for people awaiting jobs in light of our national conditions. In reforming the insurance system for people awaiting jobs, it is also necessary to let the state, enterprises, and individuals share the burdens rationally rather than merely relying on state finance or increasing the burdens of the enterprises. Especially during the period of training, expenses should be shared in a rational way. Moreover, it is necessary to strengthen management of the insurance funds for those awaiting jobs and perfect the relevant legal systems so that they can be standardized and legalized and so that an effective guarantee can be provided for the reserve and disposition of labor resources.

## TRANSPORTATION

### Government To Electrify Railroads

OW2511082991 Beijing XINHUA in English  
0812 GMT 25 Nov 91

[Text] Beijing, November 25 (XINHUA)—China is ready to electrify 5,700 km of railway lines, or 21 percent of the total railroads, in the coming five years in a bid to modernize rail transportation, an official from the Ministry of Railways said today.

The construction, which will cover a total of 11 lines, includes the railroad running from Beijing to Guangzhou, from Chengdu to Kunming and from Harbin to Dalian. Eight other trunk lines which are heavily burdened will also be electrified, the official said.

According to the official, China laid 2,790 km of electric track on eight trunk lines from 1986 to 1990, pushing the total length of railway lines to 6,941 km. Electric locomotives, on the other hand, bore 17.7 percent of the total freight volume, an increase of 10.6 percent over 1985.

However, the official said, these lines are far from enough to meet the increasing demands of national economic development.

Therefore, the ministry will raise funds in every possible way in order to electrify 25 percent of its railroads by 2000.

## AGRICULTURE

### Method To Abolish Urban Subsidies Proposed

92CE0135A Chongqing GAIGE [REFORM] in Chinese  
No 5, 20 Sep 91 pp 157-164

[Article by Han Hongshu (7281 1347 2858) and Lu Shengliang (4151 5110 0081): "Status of and Remedies For China's Agricultural Price Subsidies"]

[Excerpts] Since reform, China's agricultural price subsidies have grown very rapidly to become a stumbling block in the way of continued development of the national economy and the further deepening of reform. Analysis of the reasons for the country's agricultural price subsidies to gain a correct understanding of the present state of the country's agricultural price subsidies and to find ways to address them have become urgent tasks. [passage omitted]

### Status of China's Agricultural Price Subsidies

The current state of China's agricultural price subsidies may be capsulized as overly large in total amount, structurally unsound, and ineptly administered.

#### (1) Overly Large Total Amount of Subsidies

Since reform, China's agricultural subsidies have increased very fast, steadily expanding as a percentage of both fiscal revenues and fiscal expenditures. Agricultural subsidies increased from 9.35 billion yuan in 1978 to 56.03 billion yuan in 1989 in a nearly six-fold increase. As a percentage of fiscal revenues, they increased from 8.9 percent in 1978 to 21.6 percent in 1989, and reached as high as 30.9 percent in 1981. As a percentage of fiscal expenditures, they increased from 8.4 percent in 1978 to 18.6 percent, and reached as high as 28.2 percent in 1981. Agricultural price subsidies that take such a high percentage of fiscal revenue and expenditures are clearly too large. Agricultural subsidies must be said to be a major reason for the country's year-after-year fiscal deficits since reform.

The fundamental reason for the overly large size of the country's present agricultural price subsidies is that we have yet to change the existing strategy that gives priority to the development of heavy industry and the policy climate for it. However, there are three main direct reasons for the overly large size of current agricultural price subsidies.

First, we have greatly increased agricultural product procurement prices since reform without correspondingly increasing agricultural product sale prices. The inversion between agricultural product procurement and sale prices has steadily increased,

A look at changes in the country's agricultural product procurement price indices since reform shows a 181.2 percent increase in agricultural product procurement prices in 1989 over 1978. This includes a 248.2 percent increase in the procurement price of grain, a 102.4

percent increase in the procurement price of cotton, and a 145.2 percent increase in the price of edible vegetable oil.

Despite the tremendous increase in agriculture product procurement prices, to assure no decline in urban residents' standard of living, we did not additionally raise agricultural product retail prices to a large extent during the 1978-1989 decade. Retail prices of some agricultural products were not raised at all. Examples include grain and edible vegetable oils, which were provided the urban populace at the plan parity price. Although retail prices of some family products were raised, the amount of increase was far smaller than the increase in procurement prices. Such was the case for fresh eggs, pork, and fresh vegetables. The steady widening of the inversion between procurement and sale prices of some agricultural products since reform is a major reason for the size of the country's agricultural product price subsidies today.

Second agricultural production has increased rapidly since reform causing a sharp increase in agricultural product procurement.

Changes in the country's agricultural product procurement index since reform show a 115.8 percent increase in the amount of agricultural product procurement in 1989 over 1978, including a 139.3 percent increase in the amount of grain procurement, a 57.7 percent increase in the amount of cotton procurement, and a 244.5 percent increase in the amount of edible vegetable oil procurement. This increase in the volume of agriculture product procurement during an inversion between agricultural product procurement and sale prices means an increase in the extent of the inversion between agricultural product price procurement and sales. Therefore, the increased procurement of agricultural products, particularly the increase in procurement of agricultural products

for which an inversion between procurement and sale price exists is also a reason for the present overly high agricultural price subsidies.

Third, the excessive numbers and too broad a range of agricultural products subsidized is also a reason for the present overly large amount of agricultural product price subsidies. Prior to reform, we provided price subsidies for only a small number of agricultural products having a bearing on the national economy and the people's standard of living. Since reform, prices of an increasingly large number of agricultural products have been subsidized. Currently, more than 30 different products are subsidized, not only important agricultural products having a bearing on the national economy and the people's livelihood such as grain, cotton, and edible vegetable oil, but also ordinary agricultural products such as tea, moso bamboo, aquatic products, and fruits.

## (2) Structurally Unsound Subsidies

China's agricultural price subsidies mostly benefit urban residents, the peasants receiving very little benefit from them.

The table provided below shows the changes that have taken place in the country's agriculture price subsidy structure. It shows a steady worsening of the agricultural price subsidy structure. The peasants' benefit from agricultural price subsidies has become less and less, falling from 28.2 percent in 1978 to 3.9 percent in 1987, while the urban residents' benefit has become greater and greater, rising from 71.8 percent in 1978 to 96.1 percent in 1987. No longer does this agricultural price structure stimulate the production of agricultural products; instead, it encourages the consumption of agricultural products, thus producing a vicious cycles in which the supply of subsidized agricultural products has long been unable to meet demand.

China's Agricultural Price Subsidy Structure

Year	Farm Price Subsidy (100 million yuan)	Peasant Farm Price Subsidy		Urban Resident Farm Price Subsidy	
		Amount (100 million yuan)	Percent	Amount (100 million yuan)	Percent
1978	93.5	26.4	28.2	67.1	71.8
1979	175.3	27.3	15.6	148.0	84.4
1980	233.6	30.8	13.2	202.8	86.8
1981	314.7	41.0	13.0	273.1	87.0
1982	304.1	35.7	11.7	268.4	88.3
1983	326.9	23.8	7.3	303.1	92.7
1984	353.8	15.2	4.3	338.6	95.7
1985	281.6	15.9	5.6	265.7	94.4
1986	446.5	15.3	3.4	431.2	96.6
1987	464.6	17.9	3.9	446.7	96.1
1978-1987 average	299.5	24.9	8.3	274.6	91.7

### (3) Ineptly Administered Subsidies

Agricultural price subsidies to urban residents may be divided into two categories: Subsidies in kind, and cash subsidies. By subsidies in kind is meant the subsidies that government provides urban residents through the procurement price-sale price inversion, i.e., what is often termed a hidden subsidy. Since such a subsidy is contained in actual merchandise, it is only when urban residents consume them that the subsidy is obtained. For this reason, we term it a subsidy in kind. By a cash subsidy is meant a direct government increase in urban residents' income.

It is a subsidy issued in the form of cash, thus it is often termed an open subsidy. Prior to reform, most subsidies were in kind. Since reform, some subsidies in kind have been changed to cash subsidies.

Subsidies in kind are less effective than cash subsidies in the following regards:

First, subsidies in kind easily conceal the operating losses of enterprises that produce agricultural products; they do nothing to get the enterprises that produce agricultural products to improve administration and management. Although it is theoretically very easy to differentiate between losses resulting from policies and losses resulting from poor management, policy provides only for the subsidization of losses resulting from policies. Nevertheless, in actual practice, it is very difficult to distinguish between losses resulting from policies and losses resulting from poor management. Consequently, enterprises producing agricultural products do not try to get ahead; they do not expend effort on improving their administration and management. Instead, they eat out of the "large common pot" of subsidies that the government provides.

Second, subsidies in kind encourage urban residents to consume or waste subsidized agricultural products, thereby intensifying a demand for subsidized agricultural products that is greater than the supply. This makes rational readjustment of the agricultural production structure difficult. Since it is necessary to consume products to benefit from a subsidy in kind, urban residents who want to benefit from subsidies consume only subsidized agricultural products, or they may be unconcerned about what is taking place in the agricultural products situation. This channeling of urban residents' consumption results in a steady intensification of the situation in which the supply of subsidized agricultural products cannot meet demand. This is detrimental to a rational readjustment of the agricultural production structure.

Third, subsidies in kind cannot stimulate agricultural production. Subsidies in kind can only benefit consumers. Not only do producers gain no benefit but rather they are hurt to a certain extent. Because of limitations on the amount of subsidization, the state's increase in

agricultural product procurement prices will be very greatly limited, thereby impeding the development of agricultural production.

Fourth, subsidies in kind are hidden as far as consumers are concerned. The benefit to consumers is not apparent. Unlike cash subsidies, subsidies in kind do not directly increase urban residents' income; thus, urban residents do not have a sense of obvious gain.

Fifth, in terms of the amount of subsidization necessary for urban residents to derive the same amount of satisfaction, subsidies in kind are less effective than cash subsidies.

### Remedies To Improve China's Agricultural Price Subsidies

(1) We believe the following remedies should be applied to cure the overly large total amount of agricultural price subsidies.

First is various measures to control the rise in agricultural production costs to ease pressures for an increase in agricultural product procurement prices. Since the rise is agricultural product procurement prices is a direct reason for the increase in agricultural price subsidies, by controlling rises in agricultural product procurement costs pressures for a rise in agricultural produce procurement prices can be eliminated. Agricultural product procurement prices may then be maintained fairly stable for a certain period of time making possible the control of the size of agricultural product price subsidies.

How can agricultural production costs be controlled? We believe that first, active encouragement must be given to enterprises that produce the agricultural means of production to improve their production technology and improve administration and management to hold down production costs and increase the labor productivity rate as means of lowering retail prices of the means of agricultural production. In addition, effective actions should be taken to prevent arbitrary assessments and the arbitrary collection of fees from the peasants in order to reduce their burdens.

Second is a reduction in the range of agricultural products subsidized, price subsidies abolished for some agricultural products having little affect on the standard of living of urban residents. Too wide a range of subsidies is an important reason for the overly large total agricultural price subsidy bill in China. We must gradually scale back the range of subsidies, cancelling price subsidies for agricultural products that do not much affect the standard of living of urban residents. One example is cotton wadding, which can be used for a very long time and urban residents consumption of which is extremely limited. Abolition of the subsidy for cotton wadding would not have a very great affect on urban residents' standard of living. Another example is cotton textiles for which prices have increased several times in recent years while very great changes have taken place in what people wear. Consumption of cotton textiles has gradually declined,

thus abolition of the cotton price subsidy would not substantially reduce urban residents' standard of living. Yet another example is pig skin leather. Since restrictions have been removed on pig skin leather prices, the subsidization of pig skin leather does not benefit urban residents very much, so naturally cancellation of pig skin leather subsidies would not much affect urban residents' standard of living. A final example is subsidies for aquatic products, sugarcane, and fruits, which are not necessities in the life of urban residents, and some of which are not required in large amounts. Cancellation of price subsidies for these products would not substantially affect the standard of living of urban residents.

Third is the adoption of various measures to reduce grain price subsidies. Grain is a most important farm product having a bearing on the national economy and the people's livelihood, and grain price subsidies are also the main component of China's agricultural price subsidies. Consequently, grain price subsidies command particular concern. To a very large degree, grain price subsidies determine overall agricultural price subsidies. Conversely, the key to reducing the size of agricultural subsidies lies in reducing grain price subsidies. We believe the following three actions should be taken to reduce grain price subsidies. First is a gradual freeing of the price of grain used for industrial purposes and for certain occupations, gradually abolishing the system whereby grain is sold back to rural villages at parity price, abolishing the various different forms of grain subsidization, and changing the system whereby certain occupations are entitled to a larger grain ration. This means changing the system whereby the state provides grain at parity price for different occupations to a system whereby enterprises issue their staff members and workers with a certain amount of money to cover the difference between parity and negotiated price, thereby reducing the average amount of grain supplied. Second is a suitable reduction of grain ration standards. As their standard of living has improved, residents have gradually increased their consumption of nonstaples while decreasing their consumption of grain. Consequently, the amount of grain that the state rations to them is greatly in excess of the amount needed. A 1988 Beijing Municipal Statistical Bureau survey of 1,000 households showed that each resident purchased 18.5 jin of grain per month directly from grain shops. Taken together with the grain ration coupons used for the purchase of a light breakfast, each resident actually consumed about 24 jin of grain each month. However, each resident was entitled to a ration of 31.84 jin of grain. After deducting for the increased amounts of grain for certain occupations, the amount per resident averaged 29.5 jin. Thus each resident was entitled to one-sixth more grain than he or she consumed. By reducing by two or three jin the monthly per capita grain ration entitlement, a saving of between 600 million and 900 million jin per month could be realized for the country's 300 million nonagricultural population. This would mean an annual saving of between 720 million and 1.08 billion jin of grain. This would make possible a very great decrease in the grain

price subsidy. Even though grain is a sensitive commodity for the public, and even though the rationing system that has endured without change for a long time has created an abnormal psychology, by increasing propaganda we can gain people's understanding and support. Next is collections for a grain compensation fund. Since the state currently bears the entire burden for the country's grain price subsidies, we might adopt a system whereby individual units collect money for a grain compensation fund so that each unit bears a part of the grain price subsidy cost. Specifically, tax units would make monthly collections for the grain compensation fund from enterprises and individually owned industrial and business establishments, paying the sums collected into the national treasury. These grain compensation fund payments would be carried on the books of those who pay them as a before-tax cost. The national treasury would be responsible for the grain compensation fund for public institutions.

(2) In view of the structurally unsound agricultural price subsidies, price subsidies paid the peasants must be gradually increased while gradually reducing price subsidies to urban residents. We recommend the following means of doing this:

First is continuation of the policy of supplying peasants with the means of agricultural production on favorable terms.

Second is major efforts toward the development of agricultural science and technology, and greater promotion and application of the results of scientific and technical research.

Third is to increase investment in agriculture, doing more in the way of building basic agricultural facilities.

Fourth is a gradual reduction in the amount of fixed procurement of agricultural products on contract in the gradual change from two track to single track agricultural product procurement prices.

Fifth is using wage reform as a basis for gradually reducing price subsidies for urban residents.

(3) Inasmuch as China's agricultural price subsidies are ineptly administered, a change should be made gradually from subsidies in kind to cash subsidies after which cash subsidies should be gradually eliminated through wage reform.

Finally, since the foundation on which the country's agricultural price subsidies rest is the economic development strategy of the country's historical stage of development and the concomitant low wage and low agricultural price policies, complete solution to the country's agricultural price subsidy problems requires a genuine change in the country's strategy of giving priority to the development of heavy industry, implementing instead a relatively favorable development strategy in which everything centers around economic returns. Coordinated reform of the economic system, including the price



system, the wage system, and the fiscal system should be carried out to eliminate the vicious cycle of low wages, low prices and high subsidies. Only by deepening economic system reform can China's agricultural price subsidy problems be truly and completely solved.

### Measures To Ensure Agricultural Development

92CE0096A Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 9, 23 Sep 91 pp 8-12

[Article by Feng Haifa (7458 3189 4099) and Li Wei (2621 8691), of the Department of Agricultural Economy, Northwest Agricultural University: "Thoughts on China's Agricultural Development in the 1990's"]

[Excerpt] [passage omitted]

### Implementation of the Equal Agricultural Development Policy

In light of China's present economic conditions, to implement the equal agricultural development policy, we need to solve two basic macroeconomic problems, namely, readjusting the price structure and increasing industrial efficiency, and solve one basic microeconomic problem, which is to foster the idea among peasants that they are the major investors in agriculture.

To achieve equal development of agriculture, it is necessary first to readjust China's present price structure of industrial and agricultural products, and achieve the exchange of industrial and agricultural products at equal value. Obviously without elimination of the "price scissors," industry will not stop taking agriculture's surplus, and there can be no equal agricultural and industrial development. In view of the rigidity of the price structure, the inflationary pressure that could be brought on by increasing prices of agricultural products, the capacity of state finance to accept the changes, and the adaptability of the social interest structure, we believe that China at present lacks the conditions to eliminate the "price scissors" once and for all. We suggest the adoption of a "two track system" to solve the problem of the outflow of agricultural surplus step by step. On the one hand, the state should readjust the prices of industrial and agricultural products gradually, and reduce the "price scissors" continuously. On the other hand, the state should make up for agriculture's loss by investing in agriculture, that is, to turn the surplus taken from the "price scissors" into agricultural investment. Price readjustment should be combined with investment to put an end to the outflow of agricultural surplus. From now to the end of the century, if the price index of agricultural products can be raised about 6 percentage points over the price index of industrial products each year, that is, to have the gap between the value and price of agricultural products narrowed to below 7 percent, and if the agricultural portion of the national budget can be gradually increased to over 10 percent, after about 10 years of transition, by the year 2000, the overall and on-going

outflow of agricultural surplus will end, and the surplus taken by the state from the agricultural sector will be largely used for agriculture.

However, the extent to which China's price structure can be readjusted and its financial and budgetary capacity to compensate for the price changes depend ultimately on the efficiency of industrial production. Without effectively increasing industrial production efficiency, equal agricultural development is just empty talk. If the flow of agricultural surplus into industry is forced to stop, it will cause industrialization to slow down, even go downhill, and the resulting negative feedback can very possibly give impetus to the expansion of the "price scissors." The objective fact is that China's industry is seriously inefficient. China's energy consumption for the production of \$1 in GNP is more than double that of the United States, more than three times that of Germany, and more than four times that of Japan. If it is argued that this mixed index, which contains the price factor and is influenced by exchange rates, is not accurate enough, then the fact that China falls far behind Japan in a comparison of 22 basic indexes on the net consumption of real materials for industrial production in the seven fields of petroleum, power, metallurgy, construction materials, light industry, textiles, and chemicals should be convincing. Of course, it is not fair to make a simple comparison between the industrial efficiency of China, which is in the last part of the first stage of industrialization, and that of a developed country in the advanced stage of industrialization. But, even in comparison with India, whose overall economic level is lower than China's, we still consume 70 percent more energy for the production of \$1 in GNP. The wide gap cannot but make people think deeply. As shown by domestic comparisons, the efficiency of state-run industries is far lower than collective industries and town and township industries. According to data from the second industrial survey, state-run industrial enterprises' total output value per 100 yuan of the original value of their fixed assets was less than 95 yuan, 61 percent lower than collective industrial enterprises; and profits and taxes per 100 yuan of fixed assets were less than 23 yuan, 36 percent lower than collective industrial enterprises. If low efficiency is worrisome, declining efficiency is frightening. During the entire 1980's, China's industrial efficiency was basically in a slump, and some indexes even fell below the level of 1976, the last year of the "cultural revolution." So far there is no sign of improvement. Low efficiency coupled with a further slump has made the problem even more serious. According to a study between 1952 and 1986, China's agriculture contributed 686.8 billion yuan in surplus to the state and industry through two channels, taxes and the "price scissors," but at the end of 1986 the original value of the fixed assets of all the state-run industries was only 587.2 billion yuan. It seems that if the agricultural surplus is all given to industry, then industry could have attained its present level of fixed assets without accumulating one cent of its own capital in the past decades. This shows how serious the consequences are of low industrial efficiency, which is



probably the root cause of China's economic problems. Unless this problem is solved, there is no way to industrialize China. If the change from "squeezing agriculture" to "equality for agriculture" is regarded as an economic revolution, then it is to China a revolution against low industrial efficiency. We hold that without changing the industrial pattern of no initiative, no pressure, and no vitality, which has been followed for decades, it is basically impossible to improve the efficiency of China's industry.

When agricultural surplus stops flowing into industry, it will greatly increase agricultural profits, and peasant income will also increase gradually as a result. As their income grows, if peasants can reinvest in agriculture a part or most of the increased income, agriculture will have a solid microeconomic foundation for growth on its own accumulation. Conversely, if peasants spend all the increased income on consumption, instead of reinvesting part of it in agriculture, then it will be difficult for agriculture to grow on its own accumulation. Therefore, the microeconomic prerequisite for China's agriculture to grow on its own surplus accumulation is for peasants to become major investors in agriculture. At present, China's peasants lack the enterprising spirit to turn income into investment. The small peasant mentality is a major enemy to an enterprising spirit. To implement the equal agricultural development policy, a

basic microeconomic problem that must be solved is how to transform the small peasant mentality, cultivate an enterprising spirit, and foster the idea that peasants are the major investors. The strong small peasant mentality is a manifestation of low quality, and low quality is directly linked with low educational standards. Therefore, to cultivate an enterprising spirit among Chinese peasants, it is necessary to conduct really effective elementary education, scientific and technical education, and education on the commodity economy. At the same time, readjusting the rural property rights system to clarify property relations and establishing a guarantee mechanism that can attract investment and enable investors to make a profit, thus providing the peasants with an internal incentive to invest, are also indispensable measures for cultivating an enterprising spirit among the peasants.

#### Statistics on October Textile Exports

HK2511145291 Beijing CEI Database in English  
25 Nov 91

[Text] Beijing (CEI)—Following is a list showing the export volume of China's textiles in October 1991, according to statistics released by the General Administration of Customs:

Item	Unit	Oct. 1991	Oct. 1990
cotton	ton	9,876	1,500
cotton yarn	ton	14,683	16,420
artificial yarn	ton	845	26,712
cotton cloth	10,000m	19,902	17,549
polyester cotton fabric	10,000m	11,332	10,789
rayon	10,000m	140	235
synthetic fiber cloth	10,000m	3,600	2,792
pure silk and satin	10,000m	1,173	1,550
wool fabric	10,000m	125	96

#### Oct Export Volume of Cereals, Oils, Food

HK2211100391 Beijing CEI Database in English  
22 Nov 91

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils and food in October 1991, released by the General Administration of Customs:

Name	Unit	Oct 1991	Oct 1990
Pig	head	238,662	264,777
Poultry	10,000	442	440
Beef	ton	10,707	5,686
Pork	ton	7,069	12,386
Frozen Chicken	ton	4,256	5,223
Frozen Rabbit	ton	1,176	1,553
Fresh Eggs	1,000	25,561	34,545

Name	Unit	Oct 1991	Oct 1990
Aquatic Products	ton	27,271	26,644
Fish	ton	4,013	2,532
Prawn	ton	6,309	6,750
Cereals	ton	961,177	329,021
Rice	ton	69,515	26,839
Maize	ton	677,637	138,196
Pulses	ton	59,345	92,825
Soybean	ton	112,908	37,931
Vegetables	ton	109,563	92,745
Fruit	ton	17,641	48,060
Citrus	ton	1,081	330
Apple	ton	2,137	32,648
Sugar	ton	28,425	26,257
Canned Food	ton	64,518	40,556
Pork	ton	19,990	5,485
Vegetables	ton	27,431	26,464
Fruit	ton	10,012	6,022
Others	ton	7,084	2,585
Peanut	ton	22,018	39,277
Vegetable Oil	ton	6,180	9,058

### Fertilizer Plants To Expand Urea Output

OW2611134791 Beijing XINHUA in English  
1319 GMT 26 Nov 91

[Text] Wuhan, November 26 (XINHUA)—China is renovating its small-sized chemical fertilizer plants to produce more urea for its agriculture.

An official from the ministry of the chemical industry said that more than 1,000 county-level chemical fertilizer plants in China can only produce ammonium acid carbonate, which is unsuitable for agricultural production.

He said with a urea project with a capacity of 40,000 tons a year went into production today in Dangyang, Hubei Province, China now has 23 small nitrogenous fertilizer plants which have changed their production to urea, increasing the output by one million tons a year.

He said that the State Council plans to change the production structure of 30 percent of China's fertilizer plants to urea.

### Soviet Plant Donates Four Harvester Combines

OW2711082191 Beijing XINHUA Domestic Service  
in Chinese 1408 GMT 26 Nov 91

[By reporter Zhang Yi (1728 3015)]

[Text] Beijing, 26 Nov (XINHUA)—The Soviet Krasnoyarsk grain combine plant donated four large harvester combines to flood-stricken areas in China on 26 November.

On behalf of the plant's 17,000 staff members and workers, General Manager Rozhinov [name as received] of the Krasnoyarsk grain combine plant handed the keys of four Yeseniy-1200 combines and a certificate to Vice President Liu Keming of the China National Machinery Import and Export Corporation during the donation ceremony held at the Soviet Embassy in China. This corporation will give the combines, or the money received if they are sold, to the people in the disaster-stricken areas in a timely manner through the China National Committee for the International Decade for Natural Disaster Reduction.

The Soviet Krasnoyarsk grain combine plant has maintained relations of economic cooperation with China for years. Nearly 600 Yeseniy combines produced by this plant have been imported to Inner Mongolia, Heilongjiang, Xinjiang, Beijing, and other places in China through the China National Machinery Import and Export Corporation. These combines have been playing an important role in agricultural production.

**Post-Doctoral Program Flourishes**

*OW2111023791 Beijing XINHUA in English 0216  
GMT 21 Nov 91*

[Text] Beijing, November 21 (XINHUA)—China's post-doctoral flowing stations, institutes for post-doctoral study and work, have strengthened the country's scientific research and high technology development in various fields, ever since the country initiated the stations six years ago.

According to Zhuang Yi, director of the Department of Expert Affairs of the Ministry of Personnel, China has set up 278 post-doctoral flowing stations so far in 27 central departments and 156 working units and institutions of seven provinces and municipalities across the country.

These stations now cover 42 first-class research subjects for science, industry, agriculture, medicine, and law.

Up to now over 1,100 doctor degree holders have engaged in research work in various flowing stations. Statistics revealed that 40 percent of the doctor-degree

holders, who earned their degrees overseas and have since returned, have worked at flowing stations.

Some 400 of them have finished their research programs at the stations. Many are now undertaking major research tasks for some state and provincial science and high technology projects.

A group of these researchers was highly praised recently by various departments for remarkable achievements in their work and contributions to the country, the director said.

China started the post-doctorate practice in 1985 under the suggestion of famous Chinese-American physicist Tsung-dao Lee, according to Zhuang.

To attract more overseas senior intellectuals to come back and serve the motherland, he said, the Ministry of Personnel has recently decided that any work units which have the flowing stations are allowed to receive returned doctor degree holders with no number limit, while the latter, on the other hand, can apply to work in those institutions which have the necessary research conditions but have not set up flowing stations.

### Anti-Tank Missiles Profiled

92CM0074A Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 5, 15 Sep 91 pp 10-11

[Article by Wang Qingan and Wang Zengfu: "China's Hongjian—On Missile Undertaking in Weapon Industry"]

[Text] For more than 40 years since the founding of New China, the missile undertaking of China's weapon industry has grown and developed out of nothing, and from small to large on a relatively backward technological and economic foundation, under the profound concern of the CPC Central Committee, the State Council and the Central Military Commission.

Now various departments in China's weapon industry have set up professional research institutes, educational institutions, factories and other scientific research organizations for the study and development of missiles, and built nearly 100 general production lines for assembling missiles and manufacturing various equipment. Below we will introduce several anti-tank missiles of a representative nature:

#### First-Generation Anti-Tank Missiles

*J-201 Anti-tank Missile* This is the first type of anti-tank missile system that China has developed and manufactured on its own. It belongs to the first generation of anti-tank missiles.

When this missile is being launched, the operator needs to keep the target in an optical sight (or visual field). When the target appears within the area of attack, the operator fires the missile, and then continues to observe the target and missile with the optical aiming sight. Judging any deviation between the missile and the line of sight, he uses a hand grip to issue a deviation correcting command to the missile via the control wires on the missile to control a spoiler in the jet efflux and correct the missile's flying course so that it will fly along the line of sight until it hits the target.

The nozzle of the take-off engine of a J-201 anti-tank missile is canted downward at a fixed angle with the vertical axis of the missile. When the missile is fired, it starts with a take-off roll. Therefore, there is no need to fire the missile on any mounting device. The missile directly relies on the trailing edge of its X-shaped wings to provide lift from the ground.

The range of the J-201 missile is 400-2000 m, its weight 9.2 kg, its length 0.92 m, its armor penetration (thickness/obliquity) 120 mm/65 degree, and its flying velocity 85 m/second.

This missile system is strong in opposing interferences. It can be launched in any hidden position. Structurally it is simple and light weight. It is suitable for handling by a single soldier.

*Hongjian-73 Anti-Tank Missile* This missile system also belongs to the first generation of anti-tank missiles. Its form of guidance is also visual aiming, visual tracking, wired command transmission and manual control guidance (see details in BINGQI ZHISHI No 6, 1989). The range of the Hongjian-73 anti-tank missile is 500-3000 m, its weight 11.3 kg, its length 0.864 m, its armor penetration 150 mm/65 degree, its flying velocity 120 m/second, and its rate of hits 70 percent.

This system is strong in opposing interferences. It has a long range, simple structure, low production costs, easy to fire from a hidden position, and suitable for use by a combat team.

Hongjian-73 won a scientific and technological achievement award from the National Science Convention.

*Hongjian-73-I Anti-Tank Missile* This missile is an improved model of the Hongjian-73 missile. The major improvement was to increase the power of its warhead, raise its armor-penetrating power to 180 mm/68 degree, and augment the strength of the command-transmitting wires against tension. Minor changes have also been made in the missile's structural dimensions, but there are no changes made on tactical, technological and operational functions of the original Hongjian anti-tank missile in order to insure compatibility with the original technical equipment.

#### Second-Generation Anti-Tank Missiles

*Hongjian-73B Anti-Tank Missile* The obvious disadvantages of the first-generation anti-tank missiles are that it is difficult to operate and that the rate of hits is low. In face of these disadvantages, improvements have been made on the Hongjian-73B missile. The new model uses infra-red semi-automatic guidance. That means: The launcher still uses optical sight for target aiming and tracking, but he only needs to match the center of the cross-hair in the optical viewer with the target. The infra-red goniometer will automatically obtain the necessary information on the angle of deviation between the missile and the line of sight, and constitute a control command through the control box to make the requisite compensation. The command is then transmitted to the missile through the control wires to control the deflection fins in the jet efflux to change the flying course of the missile and make the missile return to the direction of the line of sight until it hits the target. In addition, this system also retains the function for manual operation.

The range of the Hongjian-73B anti-tank missile is 400-3000 m, its weight 11.7 kg, its length 0.869 m, its armor penetration 180 mm/68 degree and its rate of a good hit 90 percent.

This system is easy to operate, and its rate of hits is high. Equipped with a powerful warhead, it is capable of overcoming certain interferences. Due to its portable features, it can be operated by a single soldier or mounted on any vehicle for easy operation. This system has won a nation-wide prize of second class for scientific

progress. (See details in an introduction published in BINGQI ZHISHI No 6 1989.)

*Hongjian-8 Anti-Tank Missile* This anti-tank missile system is another type of second-generation anti-tank missiles developed and made by China on its own.

It combines all the features such as optical aiming and tracking, infra-red semi-automatic guidance, and wired transmission of control commands. The missile is controlled by a spoiler in the jet efflux and launched by a launch tube.

The range of the Hongjian-8 anti-tank missile is 100-3000 m. Its weight is 11.2 kg, its length 0.875 m, its warhead caliber 0.12 m, its warhead weight 3.1 kg, its armor penetration 180 mm/68 degree, its missile flying velocity 200 m/second, its rate of fire 2-3 rounds/minute (at maximum range), and its rate of hits 90 percent.

This system's field of fire is broad (360 degree). It has a far-stretching range and fast flying velocity. It is easy for the operator to launch the missile. It also has a high rate of hits, a powerful warhead and a well-organized structure. It has a portable model, and it can also be mounted on a vehicle or aircraft.

*Hongjian-8A Anti-Tank Missile* The Hongjian-8A is an improved model of the Hongjian-8 missile. The major improvements serve to increase the power of the warhead, improve the propellant for greater cruising range, and enhance the armor penetrating power to meet the

NATO standard in piercing triple-spaced armor. Minor changes have been duly made in the missile's structural dimensions, but there are no changes made on the other tactical, technological and operational functions of the original Hongjian-8 anti-tank missile in order to insure compatibility with the original technical equipment. The Hongjian-8 anti-tank missile system has won a National Special Award for Scientific Progress. In full power and grandeur, formations of these missiles had paraded through Tiananmen Square, and demonstrated the new level of our army's modernized equipment during the military parade to mark the 35th anniversary of the founding of New China.

Since their founding, the missile undertaking in China's weapon industry has also fulfilled many supportive tasks for aerospace and aeronautical departments. For example, it has efficiently completed the tasks in developing more than 200 products in support of dozens of surface-to-surface, surface-to-air, air-to-air and ship-to-ship guided missiles. Meantime, it has accomplished with high standards the tasks of turning out complementary products for the development of ICBM's, Changzheng [Long March] carrier rockets, satellites and nuclear weapons.

At present, scientists, research personnel, workers and staff in China's weapon industry are enthusiastically developing the third-generation anti-tank missiles, and striving to attain and surpass advanced world standards, and write an even more magnificent epic for further promoting the modernization of our army's weapons and military equipment.

### Money Supply Continues To Grow at Slower Pace

OW2611100391 Taipei CNA in English 0805 GMT  
26 Nov 91

[Text] Taipei, Nov. 26 (CNA)—The domestic money supply continued to increase in October, but at a slower pace than in September, according to a Central Bank of China (CBC) statistical report released Monday.

The broadly defined M2 monetary aggregate, including cash, check deposits, demand and savings deposits and quasi-money, grew at an annual rate of 18.3 percent in October, slightly lower than September's 18.5 percent, the highest level the central bank will tolerate, the report said.

Despite a slowdown in the M2 growth, the narrowly defined M1B grew at a faster pace than in September, with the annual growth rate reaching a two-year high of 13.4 percent, according to the report. It was also the fourth straight month that M1B registered a gain.

M1B, comprising currency in circulation and deposits in checking and passbook savings accounts, is widely regarded as a more effective indicator of local [word indistinct].

Financial analysts said October's relatively fast growth in M1B was attributable to recent reductions in bank reserve ratios which might have led to swifter increase in demand deposits than in time deposits.

Professor Hua Mig-shu of Tamkang University said the high M1B growth in October indicated that the effect on the domestic money market of the government's "deficit" financial policy has begun to appear. This is reflected in the tremendous declines in government deposits at local financial institutions, Hua explained.

CBC statistics show that government deposits at banks have dropped 127.7 billion nt [New Taiwan] dlr since the beginning of this year bank loans to the government have increased 107.5 billion nt dlr during the 10-month period when compared with the year before.

Increases in bank loans and investments have also contributed to the money supply growth. CBC tallies show that investments and loans by local banks to private and public enterprises rose at an annual rate of 20.7 percent in October, higher than September's 19.49 percent growth.

The advances in bank investments and loans signal that the local economy is reviving and gradually returning to its normal steady growth, Hua observed.

The country's foreign assets also increased significantly in October because of the growing foreign trade surplus and an inflow of "hot money" trying to cash in on the relatively high interest rates here, according to CBC statistics.

Quoting CBC tallies, Professor Ying Nai-ping of National Chengchi University said Taiwan's foreign

assets have increased more than 254.5 billion nt dlr in the past 10 months. This is one of the key factors behind a rapid growth in the domestic money supply and a rise in the [words indistinct] Ying explained.

### 1992 Economic Growth Projected To Reach 6.73 Percent

OW2311085591 Taipei CNA in English 0745 GMT  
23 Nov 91

[Text] Taipei, Nov. 23 (CNA)—The Republic of China economy will continue to grow steadily next year, with domestic demand as its chief driving force, a cabinet-level agency forecast Friday.

The Directorate General of Budget, Accounting and Statistics (DGBAS) projected 1992 economic growth rate at a moderate 6.73 percent in real terms, slightly lower than this year's growth target of 7.2 percent.

DGBAS officials noted that the current multibillion-dollar Six-Year National Development Plan will help stimulate domestic demand and bolster economic growth during the coming year.

The Gross National Product (GNP), the nation's total output in goods and services and the broadest measure of the country's economic health, is expected to reach 205.3 billion US dlr in 1992, a nominal annual growth rate of 14 percent, the officials reported.

Per capita GNP will hit 9,953 US dlr next year, approaching the level of advanced countries, the officials said. DGBAS earlier estimated Taiwan's per capita GNP at about 8,700 US dlr this year.

The country is expected to register a surplus of 7.8 billion US dlr in its merchandise and service trade in 1992, about one billion US dlr less than this year's figure.

Taiwan has already accumulated a 10 billion US dlr-plus trade surplus in the first 10 months of this year, mainly because of a 50 percent gain in exports to mainland China and Europe. As this highflying growth is not expected to continue into next year, the officials said, the 1992 trade surplus should fall below the 1991 level.

Inflation will not go wild in the coming year, the officials said confidently. They foresaw a modest 3.48 percent rise in consumer prices and a 0.25 percent decline in wholesale prices.

With the economy gradually regaining momentum, the officials said, private investments have been rising steadily in recent months following a disastrous 8.06 percent dive in 1990 and a further 4.66 percent dip in the first quarter of this year.

Civilian investments grew an encouraging 6.09 percent in the third quarter of the year after a second-quarter 2.82 percent increase.

DGBAS predicted that private investments will chalk up an even greater 9.05 percent gain in the fourth quarter. The growth rate for the whole year is projected at 4.66 percent and that for 1992 is expected to top 9.81 percent.

Thanks to brisk exports, the agency said, domestic industrial production is expected to register a 6.26 percent growth this year after 1990's 0.22 percent decline.

DGBAS also anticipated a 6.54 percent advance in consumer spending this year, a figure approaching the normal growth rate seen in past years.

### **Economy To Grow 7.2 Percent in 1991**

*OW2211092491 Taipei CNA in English 0839 GMT  
22 Nov 91*

[Text] Taipei, Nov. 22 (CNA)—Increases in private investment and consumer spending have helped push third quarter economic growth to 8.4 percent, the largest gain since the first quarter of 1989, the Directorate General of Budget, Accounting and Statistics (DGBAS) said.

DGBAS officials said that the figure was higher than the predicted 7.27 percent.

The growth rate for the second quarter was also adjusted upwards to 7.11 percent from the original 5.86 percent prediction.

Economic growth for 1991 will be 7.2 percent, the officials predicted, while that for 1992 will be seven percent.

They noted that the rebounding economy has rekindled investment interest, and the real growth rate for investment in the private sector will increase from a negative 8.6 percent last year to nearly five percent this year.

### **Struggling for Technological Independence From Japan**

*91CE0738A Taipei TIEN-HSIA [COMMONWEALTH]  
in Chinese No 123, 1 Aug 91 pp 12-22*

[Article by Ch'en Hsiu-chien (7115 0208 6343): "Finding a Road For Taiwan's Technological Independence; Joining With Europe and Working With the United States To Restrain Japan"]

[Text] In the clamor against Japan, what is an effective policy for Taiwan's independence?

**Should Taiwan purchase technology? That would require an investment of more than 10 billion. Boycott Japanese goods? Japan controls an overwhelming majority of Taiwan's mechanical equipment and crucial spare parts.**

**Now that Taiwan's adverse balance of payments with Japan exceeds its favorable balance of payments with the United States for the first time, a brand new policy**

**orientation is beginning to emerge, thanks to the efforts of government and the civilian sector...**

Even Premier Hao has spoken out.

Although President Li took the initiative in proposing a change from a vertical to a horizontal economic division of labor between Taiwan and Japan when he first took office, Taiwan's unfavorable balance of trade with Japan has continued to expand enormously. In mid-July, Premier Hao specially requested the Ministry of Economics and the National Science Council to take concrete actions to free Taiwan from economic and technological dependence on Japan.

Like a bolt out of the blue, during the period from January to May 1991 Taiwan's adverse trade balance with Japan suddenly exceeded Taiwan's favorable trade balance with the United States. For Taiwan this was an enormous change for the worse in the triangular trade structure that has existed among Taiwan, Japan, and the United States for the past 10 years. In the absence of an increase in Taiwan's favorable balance of trade with the United States, the only remaining way to remedy the huge deficit with Japan lies in rapid growth and in equalizing the extremely inconsistent favorable balance of trade with Hong Kong. While looking at the statistics, Chiang Ping-k'un [3068 0014 0981], who is deputy minister of economics and who knows Japan well, knitted his brow, shook his head, and said, "This is terrible."

Evening out the adverse balance of trade will required sustained efforts over a long period. A quick fix may be possible through savings in military aircraft and missile costs during a transitional period of balance in military forces, but effecting a trade balance between Taiwan and Japan will entail a complete readjustment of the entire economic structure. This is not something that can be treated with an efficacious heart tonic.

### **Larger and Larger Adverse Trade Balance**

Granted, the dependence on Japan has provided Taiwan an opportunity for the rapid accumulation of wealth, but it has also brought about a shallow economy that has vitality to spare but over which Taiwan exerts insufficient control. Japan is the largest foreign investor in and greatest source of technology for Taiwan. Ninety percent of all Taiwan's import costs are for upstream and mid-stream raw materials, spare parts, and machinery, which are the lifeline of Taiwan's manufacturing industries. The slightest change in Sino-Japanese trade, and the key Taiwan export industries—electronics, machinery, and bicycles—break out in a cold sweat.

Upstream industries in Japan make unlimited demands, in addition to which Japanese businessmen make all they can from Taiwan's six-year development plan. Hitoshi Yanagawa, the official in charge of trade matters in the Japan Exchange Society, clearly stated the belief of Japanese businessmen as follows: "The trade deficit will get worse."

In holding down the trend toward a rise in an adverse balance of payments with Japan, and increasing autonomy while being dependent on Japan, Taiwan must devote every effort to increasing its control over key spare parts.

Actually, Taipei is not alone by any means. Washington, Brussels, and Paris likewise worry day and night about Japan's power over crucial spare parts. Once Japan became the sole, or the most competitive industrial champion of the whole world, both Europe and the United States hastened to call for bids in the name of national security. They used various tactics, including industrial conformity, customs duties, and negotiations to block Japan's upstream industries from both piecemeal encroachment and wholesale takeovers.

However, Taiwan is a newly developing island nation with a population of 20 million and only 20 years of industrial development. It lacks the technological depth and the industrial strength of Europe and the United States. It cannot wield 301 provisions [the so-called Special 301 provisions of the United States Trade Act regarding copyright and patent infringement], anti-dumping rulings, or semi-conductor agreements at every turn in order to force Japan to give way.

Talking about key spare parts industries, Luo I-ch'iang [5012 4135 1730], the extremely active president of Taiwan Phillips, acknowledged that "the technology is difficult, a large amount of investment is required, and returns are slow in coming."

For an advanced semi-conductor plant that has already invested nearly \$1 billion to import sophisticated liquid-crystal display [LCD] technology and an assembly line from Japan, another NT\$20 billion [new Taiwan dollar] would be required.

Taiwan can only rely on an intelligent policy to find a position on the great map of the division of labor in the international economy, using alliances to expand autonomy over its own affairs.

"This is an age of internationalization," said Industrial Research Academy director Lin Ch'ui-chou [2651 0987 1352]. "Only when there is cooperation and dynamic interaction with us can we benefit."

#### **Joining With Europe and the United States to Ensnare Japan**

Thanks to the efforts of the government and the civilian sectors, this strategic orientation of seeking autonomy through cooperation has begun to emerge. Officialdom and civilians have sallied forth in turn, and Taiwan has begun to maneuver among various groupings in the jungle of world economic competition. It has joined with Europe and the United States to ensnare Japan. It is watching for a chance to import new technology in order to strengthen itself little by little in an international atmosphere of co-existence and co-prosperity.

"We must not think in terms of the small overwhelming the large, but rather in terms of the small serving the large," emphasized Shih Yen-hsiang [2457 7346 4382], director of the Ministry of Economics Science and Technology Advisory Office. "First of all, it is necessary to understand their (the United States, Europe, and Japan) way of thinking and world outlook, and then figure out how we fit in among them."

As international competition heats up, trans-national enterprises must have partners who can provide markets, skilled personnel, and capital for the joint development of technology. Taiwan may not seem large, but the appetite of its downstream export industries is by no means small. Local personnel who are skilled in manufacturing technology, plus the flow of Chinese back to Taiwan from abroad are definitely strengths which hold attraction for the international division of labor system.

Take markets, for example. Exports of the Taiwan bicycle industry rank first in the world. The largest of these plants alone buys NT\$900 million worth of parts from Japan each year. Taiwan's production of personal computers is also the fifth largest in the world. It is the prime market for the United States' electronics parts industry.

The general manager of Yu-chiang Corporation, Lu Ch'ao-chun [4151 6389 5028], emphasized that only when it possesses world-class expertise can Taiwan talk about international technology exchange. He affirmed that an extension from personal computers and peripherals into the semi-conductor industry was something that Taiwan could do well. Taiwan can use this as a tool for pressuring Japan to obtain photoelectric and mechanical technology. He used the lag in Taiwan's fax machine industry behind personal computers as an example, to show that "this system (personal computers) is one that Japan has still not brought in." [as published]

Talking about autonomy, Taiwan's first need is to develop the ability to be a smart customer.

The assistant general manager of Ch'uan-yu Computer Corporation, Liang Ch'in-shu [2733 2953 5002], emphasizes that in an age of an international division of labor, spare parts should be exchanged to meet each other's needs. "We should not look at matters (the adverse trade balance) in too nationalistic a way," Liang Ch'in-shu cautioned. "The important thing is how we can become a customer that others cannot ignore."

The chairman of the board of the Ch'uang-hsin Technology Transfer Corporation, Wang Ch'i-mou [3076 0366 6180], made the further analysis that spare parts factories always need to form alliances with outstanding downstream factories for the exchange of new information. Although it is very difficult for Taiwan to develop complete upstream industries by its own efforts, given its small size, if Taiwan's downstream industries can improve their design and creative capabilities, they can attract the full support of foreign upstream industrialists.



Regarding the importation of technology, Shih Yen-shiang, director of the Ministry of Economics, Science and Technology Advisory Office, warned that "having money is not enough. More important is the ability to digest technology." Skilled personnel are the key element to whether Taiwan will be able to build a technological foundation to produce key spare parts.

### **The Liquid Crystal Road is a Bumpy One That is Hard To Travel**

As a result of Taiwan's efforts in recent years to train skilled personnel in selected technologies, Taiwan's upstream industries now appear to have more abundant technicians. In January 1991, Japan's Toshiba Corporation announced a joint venture with Tung-Yuan Electrical Machinery which would produce compressors in Taiwan to supply the domestic air conditioning industry (see TIEN-HSIA No 117). One observer noted that, with financial support from both Sheng-Pao and T'ai-jui Corporations, a compressor group in the Machinery Institute of the Industrial Research Academy set out to found the Jui-Chih Corporation to produce compressors. This was the main reason that pressured Toshiba to enter the world's third-largest air conditioner market, Taiwan. "Had it not been for this group of people being determined to set up a plant, none of this could have happened," he affirmed.

The road that Taiwan has travelled during the past three years in introducing LCD technology has been a bumpy one, and the lack of skilled technicians has also greatly increased risks. Three years ago, Taiwan firms contacted the Sharp Corporation in Japan for the first time. One industrialist recalled that not only was Sharp's price astronomical, but it also required Taiwan to list in detail the specific technologies needed. However, "at that time, Taiwan had no one at all who understood crystal display devices," he said.

In order to stop worrying about importing technology solely from Japan, Taiwan began actively to seek opportunities in Europe, the United States, and Japan.

The new space that international competition was able to provide Taiwan contrasted with the strict Japanese division of labor of the past.

During the 1950's and 1960's, Taiwan was always the first stopover in Japanese enterprises' movement abroad, and today it remains an assembly base in the eyes of Japan. Asked about a horizontal division of labor between Taiwan and Japan, the Taiwan business manager of Mitsubishi Corporation, Hiroshi Yamaguchi, fell back on the pretext of an inadequate local industrial structure and investment in technology to say, "I don't think conditions are adequate."

For a long time, Japan has brought into Taiwan complete product design drawings and machinery. Admittedly, Taiwan can assemble products easily and rapidly, but Taiwan has never been allowed to entirely understand the basic concepts underlying the manufacturing

machinery and product designs. A cadre from a large electrical appliances factory said frankly that in technological cooperation with Japan "production technology may be transferred, but design technology positively cannot be released."

Thus, when Ta-t'ung imported recording projector manufacturing technology 10 years ago, Japan was willing to sell only the recording projector chassis; it would not reveal any of the design particulars. "It would not even discuss the tilt angle of the magnetic video-recording head." One officer in charge at Ta-T'ung recalls, as vividly as if it had happened yesterday, that it was only after Ta-T'ung found a retired engineer working as an advisor in an advisory corporation in Japan that it finally make a breakthrough in its repeated efforts.

Japan holds key technology that is crucial to competition even more tightly. In early May a liaison team from a Japanese economic group held a meeting in Taiwan that discussed greater economic and trade cooperation between Taiwan and Japan. When discussion turned to the transfer of semi-conductor technology, the idea was completely vetoed.

At the end of July, the Japanese Ministry of International Trade and Industry [MITI] announced its intention to transfer sophisticated semi-conductor technology to Taiwan. Citing the inability to move Japan on internationalization and opening of markets as a precedent, Hsu T'ing-kuei [6079 1694 3802], the Industrial Research Academy representative in Tokyo, said: "The government very much wants to do it, but industry will not support it." He was talking about Japan's stance toward Taiwan. One government official in charge of scientific and technical matters could not help saying, "In Japan's view, there is no need to have our IC [integrated circuit] industry either."

### **No End to the Commercial Warfare Performance**

In order to break Japanese restraints by widening sources of technology, both the government and civilian sectors on Taiwan conducted a search in North America, the European continent, and Japan. It even went as far afield as eastern Europe and the Soviet Union. In May 1991, Chiang Ping-k'un, deputy minister of economics, who had led another group on a visit to large enterprises in Japan, made the long journey to eastern Europe, where he discovered that even Bulgarian technology had landed on Taiwan.

Initial contacts for the purpose of asking about technology initiated a continuing chain reaction. Act after act of a most interesting commercial warfare play began to be performed in Taiwan.

Fanuc, a large Japanese tool machinery control device factory that decided in mid-July to invest in building a plant in Taiwan, went through a particularly tortuous change of attitude over the course of a year and a half.

In order to import the control devices, which accounted for 40 percent of the total Taiwan tool machinery cost, for production in Taiwan, the Ministry of Economics mandated the Mai Chien Shih Advisory Corporation to contact Fanuc in Japan. Even though Taiwan was Fanuc's largest market outside Japan, Fanuc said that the Taiwan requirement for 6,000 units each year did not meet the optimum 12,000 unit amount for building a plant. Fanuc would have to make a re-examination in 1992 before considering it.

The reason for Fanuc's recent change of heart was a competing firm's plans to locate in Taiwan. A person familiar with behind-the-scenes events said that during that same year the West German Siemens plant, which was Fanuc's mentor, recognized the strength of the Taiwan tool machinery industry's output and had applied to the Bureau of Industry to build a factory in Taiwan. France's NUM [expansion unknown], and Japan's Mitsubishi were also secretly making plans to increase their activities in Taiwan. These various actions forced Fanuc, which held half of the world's market, to change its mind within a short period and openly announce that it was going to build a plant in Taiwan.

Taiwan's scientific and technical manpower that is spread abroad is also a good card that Taiwan can play. Tun-nan Science and Technology, which produces the fax machine's reading eyes—the scanning sensor—found a Chinese engineering team, which was formerly engaged in defense planning in the United States, to be responsible for technology for breaking Japan's monopoly. Tun-nan Science and Technology, which began large-scale production at the end of 1990, is the only fax sensor plant outside of Japan that can supply sensors in large quantities. As soon as its new product appeared, Taiwan extended feelers to markets in Korea and Hong Kong. General manager Ch'en Chung-hsiung [7115 1813 7160] said that in reaction to pressures from Taiwan's marketing of the sensors, the per unit price of the Japanese product fell from \$100 in 1990 to the present price of \$40.

Even Japanese plants are thinking about relying on the technical strength of Chinese abroad who are returning to Taiwan.

In the sub-micron [tz'u weimi 2945 1792 4717] science and technology specialty plan in which the Ministry of Economics will invest NT\$7 billion during the next five years, Yu-ch'uang Corporation in the Science Park is to develop a 16 million pixel [weiyuan 0143 0337] memory chip (a 16 megabyte dram chip). Yu-chuan, which was founded in 1990 by a group of seven people who returned to Taiwan, developed a 12 microsecond 256 KSRAM chip, the fastest in the world, in June 1991. This is a new-generation, high-performance memory urgently needed for microcomputers. As of this time, only Hitachi Corporation in Japan had announced that it was promoting a similar product. Seeing that Yu-ch'uan designed a high density memory chip, and had a large computer mathematics chip integration capability,

even this leading firm in the field of consumer electronics, which is known as an innovator, came running to contact Yu-ch'uang, hoping that it could jointly develop a signal processing chip for use in high-definition television (HDTV).

#### Scale Needed for Technology To Take Root

Admittedly, "talking" technology into Taiwan is difficult; for technology to take root through enterprise operations is an even greater challenge.

No avenues are open to insular Taiwan except to concentrate and coalesce resources, using scale to spur technology to take root.

By focusing on alliances among individual plants, the limitations of the too small stature of medium and small enterprises may be overcome. Kuang-Ta Science and Technology, which produces the key module for laser printers—laser engines, must not only have high technology, but also form partnerships to ensure success in the expansion of output.

Kuang-ta restructured the laser engine that the Industrial Research Academy developed. The engine that the master-engineer class Canon factory in Japan developed has more than 400 parts and 100 screws. Kuang-ta's has only 240 parts and 50 screws. Nevertheless, simple reliance on straightforward construction to facilitate production is not enough. Kuang-ta's assistant general manager, Lin Wei-yuan [2621 2651 1218 6678], stresses that "we have to invest together with customers," using upstream and downstream joint ventures to ensure market size for Kuang-ta's products.

If Kuang-ta, which begins large-scale production in 1992, is truly able to get a firm foothold, surrounded as it is by the Japanese, that will be good news for peripheral industries around the Taiwan computer industry. Large Japanese firms such as Canon and Ricoh hold customers to strict conditions worldwide: payment three months in advance of delivery; a minimum order of 5,000 or 10,000 units; and no changes once an order has been placed. Both Hung-ch'i and the highly interested Sheng-pao have invested in Kuang-ta. Actually, key modules, which require a large investment and broad technology, are a natural for investment by large enterprises. China Picture Tube, which is just 20 years old, is an example of a large Taiwan enterprise that bit the bullet to bring forth a new situation.

#### Upstream Industries Must Compete for a Long Time

China Picture Tube, which was jointly capitalized by household electrical appliance firms, and which imported technology from RCA in the United States, went through trials when it was first founded. First, when a market slump developed, RCA withdrew. After China Picture Tube shifted to technical cooperation with Toshiba of Japan, the household appliance industry shareholders pulled out, leaving only Ta-t'ung to carry on. In 1985, China Picture Tube finally emerged from its

difficulties and began to make money. Cumulative losses amounting to NT\$1 billion were completely recouped within a year-and-a-half. Today, China Picture Tube is the best money-making enterprise in the Ta-t'ung Group.

China Picture Tube's technicians wanted to make some technological breakthroughs to free themselves from Toshiba's unwillingness to sell technology. They analyzed the chemical ingredients used in the picture tubes. Then, they found chemical suppliers in Europe and the United States, where they opened a second source of supply. They were dissatisfied with the machinery used, so they set about finding ways to improve it. Today, China Picture Tube has a complete plant-designing capability. Thus a new Malaysian plant that it designed went into production without a hitch in 1990, producing in volume secondary television picture tubes.

China Picture Tube, which founded a development center four years ago, has actively researched computer display imaging tubes. No one was able to teach China Picture Tube how to design a focusing lens having an unusual curvature that simulated the focusing action of the electronic gun in a picture tube. Two years ago, the technological cooperation between Toshiba and China Picture Tube expired and was not renewed, but China Picture Tube continued on its own with developing a more refined, second-generation high-resolution picture tube for use with computers.

Even though Toshiba subsequently wanted to cooperate with China Picture Tube again, "the technology they wanted to provide we had already worked out ourselves," China Picture Tube Development Center manager Ch'en Hsiu-ch'ien [7115 0208 0051] said bluntly.

Using China Picture Tube's experiences as an illustration, a officer in charge of research in the Ta-T'ung Group emphasized that getting started in components required staying power. "One must be determined to do it, and to experiment while doing it until the know-how is found."

Even while being dependent, one has to understand the social Darwinist nature of Japanese society in order to convince the Japanese to import technology into Taiwan. "The Japanese understand power." Hsieh Ju-sung [6200 3067 1528], who has served Hitachi Electronics in Kaohsiung for a quarter of a century, pondered a while before saying: "Actually, this is the way people are." Twenty-five years ago Hitachi spent \$50,000 to found Hitachi Electronics in the salty ocean-air-tinged Kaohsiung processing zone. Afterward, it did not spend another red cent. Kaohsiung Hitachi made money, accumulating its present NT\$330 million. Using past work performance and operating success as an argument, in 1990 Kaohsiung Hitachi convinced Japan to transfer technology to Taiwan. Kaohsiung Hitachi Electronics spent NT\$500 million from its own coffers to set up the Hitachi Group's automated LCD production line, which is the largest in the whole world.

Taiwan used the tactic of forging links with Europe and the United States to restrain Japan, and now it can satisfy the potential demand of enterprises in Europe and the United States. Eclipsed by the scientific and technical might of Japan's industry, European and U.S. enterprises need alliances in East Asia to restrain Japan. They also hope to restrain Japan by bringing into being the most expert volume production capabilities of Japan.

#### Fine Opportunities During the 1990's

Luo I-ch'iang [5012 4135 1730], general manager of Phillips in Taiwan and responsible for Phillips' East Asian components business, said categorically that "Taiwan, because it is located between Asia and the Pacific region, has extraordinary opportunities." Using France, which has been active in establishing local links recently, as an example, Shih Yen-hsiang said: "The French are strong in design, but are not versed in large-scale production. France and Taiwan complement each other in this way."

Actually, even Japan needs Taiwan. During the 1990's, the greatest internal problem that Japan will face is a labor shortage; thus, areas outside the country offer a fitting alternative for the building of a regional economy. Taiwan can share Japan's labor in the East Asia region.

The analysis of Hitoshi Yanagawa of the Japan Exchange Society is that when Japan's brain-power intensive industries move broad, finding a body of middle-ranking cadres who can take vigorous action and who can link up with Japan will be most important. In looking around Japan's important future economic hinterland in East Asia, only Taiwan can provide this kind of talent that can work in harmony with Japan.

The Nippon Electronics Corporation (NEC) manager in charge of procurement in Taiwan, Murao Junichiro, also acknowledged that production lines in large Japanese enterprises are constantly expanding, but there is a shortage of factory hands. Many products must be contracted outside Japan for production, and Taiwan's manufacturing experience fits the bill. NEC, which has been buying telephones and power supply equipment in Taiwan, is now thinking of buying Taiwan fax machines.

Like Holland and Sweden, Taiwan has to be a place that is small in area but whose international citizens have no small strength. In a division of labor system in which Europe, the United States, and Japan each have their own positions, Taiwan must also develop a strategy that provides a position for Taiwan.

While seeking autonomy in the midst of industrial powers, the battle line lies all around Taiwan. However, the road to opportunity also lies all around Taiwan.

Liang Ch'in-shu of Ch'uan-Yu Electronics said, "We have to make more friends now; we have to forge wider relationships." He said, "We can almost say that Japan has been our best friend in the past, but should it turn against us, what are we to do?"

Lu Ch'ao-ch'un of Yu-Ch'uang emphasized that we have to pay attention to tactical alliances during the 1990's. "The size of a corporation or a country is not important. So long as it has the expertise, even a small corporation

can become the most important partner of a large corporation." Gesturing with his hands, he emphasized excitedly, "Most important is being able to deliver the goods."

**Future Court of Final Appeal Perceived**

92CM0052A Hong Kong TA KUNG PAO in Chinese  
2 Oct 91 p 6

[Article by Wan Yi (8001 6654): "Establishment of Court of Final Appeal in 1993 is Anticipated"]

[Text] On 26 September the Sino-British Joint Liaison Group issued a press communique in London: Experts from both sides reached an agreement in principle on the early establishment of a Court of Final Appeal in Hong Kong. Both sides agreed to formulate and revise the laws and other relevant preparatory work. It is anticipated that this court will be established in 1993.

On the discussion of the Final Court of Appeal in Hong Kong there exists a greater difference of opinion within the Sino-British Joint Liaison Group. There are three major points: 1) the proportion of overseas judges, 2) the number of nonpermanent judges and the degree of international character, and 3) the issue of the extent of authority of the Final Court of Appeal in judicial interpretation of constitutional documents. After John Major visited China, he said both sides abolished their principle differences. The rest are only minor details that will be solved by experts from both sides. It is anticipated that the preparatory work for the Final Court of Appeal will be established in the near future. The press communique of 26 September assured this piece of news.

If we discuss it from another angle, once the Final Court of Appeal is established in Hong Kong it will have historical significance. From the view of international law, the concept of a nation's sovereignty manifests itself in supreme administrative power in dealing with internal and external affairs, and jurisdiction is the most important component part. Prior to 1993, according to the "British Imperial Mandate" the British have final or supreme jurisdiction over all cases in Hong Kong. Therefore, at present the place for final appeal in Hong Kong is still the British Privy Council. But after 1993, once the Court of Final Appeal in Hong Kong is established, the Hong Kong people will have their own place of final appeal.

On the question of Final Court of Appeal, the media has different opinions. I will analyze some viewpoints.

First, whether the allowance of only one overseas judge violates the "Joint Declaration" and "Basic Law." "Supplement 1" of the Joint Declaration stipulates that revision of Hong Kong's judicial system is to abolish the system of appealing to the British Privy Council and is replaced by the Court of Final Appeal of the Hong Kong Special Administrative Region. This is the premise for establishing the Court of Final Appeal. At the same time, Article 81 of the "Basic Law" stipulates that the Court of Final Appeal based on necessity can invite judges from other regions that practice common law to participate in judging. From this provision we see that there is no precise stipulation about the highest and lowest limits in hiring overseas judges. Therefore, I believe that the

Court of Final Appeal allowing only one judge from a country or other region to participate which practices common law is quite appropriate from the legal viewpoint.

Second, some people point out that the provision on the composition of the Court of Final appeal violates the spirit of the report passed by the Advisory Committee of Basic Law "On questions relating to authority of final appeal of the Special Administrative Region and judicial system and the responsibility of independent inspection organizations." The report specifies there should be a flexible proportion between the number of permanent judges and those who are invited. At the preliminary stage, there should be three overseas judges from areas practicing common law..... Naturally, from the legislative, theoretical point of view before drafting and passing each law we must solicit the opinion of experts, professionals and the general public. However, the Advisory Committee report serves only as a reference not as a premise or base for the formulation of laws. Therefore, based on this point, the British and Chinese governments act as legal representatives for people on both sides, and have the right to decide the number of overseas judges for the Court of Final Appeal.

Still others think we need more overseas judges because of the lack of qualified legal personnel in Hong Kong. This is totally unfounded. There are numerous legal experts in Hong Kong who know English well, and are well-versed in law, including common law and mainland laws. Under British colonial rule these legal personnel have no chance to show their talent. Therefore, outsiders have the image that Hong Kong lacks legal personnel who are versed in overseas laws, in particular common law.

Furthermore, the interpretation right of constitutional documents should belong to the Standing Committee of the National People's Congress, and the right of revision belongs to the People's Congress. As we all know, at present, the constitutional documents of Hong Kong (British Imperial Mandate) belongs to the King of Britain and parliament. The incumbent Governor of Hong Kong and both legislative and executive councils have no right to revise them. Some believe that after the establishment of the Court of Final Appeal in 1993 we have the full legislative right to interpret constitutional documents of the Basic Law, etc. This is an imitation of the working procedures of the U.S. Supreme Court which is very difficult to correlate with the spirits of the Basic Law and Joint Declaration. The Basic Law stipulates that in principle the right of interpretation of law goes to the Standing Committee of the National People's Congress. However, in consideration of the reality in Hong Kong and its historical situation, it therefore stipulates that opinions should be solicited from the Central Government or the highest legislative organizations when the Court of Final Appeal in Hong Kong is hearing a case relating to affairs managed by the Central Government or an article concerning the relationship between the Hong Kong Special Administrative Region

and the Central Government. Articles that concern Hong Kong's own affairs are to be interpreted by the Special Administrative government or the Court of Final Appeal. In addition, even if the Standing Committee of the National People's Congress is exercising its interpretation right within its scope, it will solicit beforehand the opinion of the Basic Law Committee of Hong Kong Special Administrative Region which is under its jurisdiction. Therefore, some believe that the establishment of the Court of Final Appeal before 1997 will have an adverse effect on the interpretation of current law in Hong Kong. This is beyond apprehension. If we say that China wants to interfere in Hong Kong's affairs at an earlier date, it is absolutely not the case.

As for a Chinese national being the chief judge on the Court of Final Appeal, it is better to have a permanent Hong Kong resident. One dispute that was left undecided by the Sino-British Joint Liaison Group this time was the nationality of judges selected for the Court of Final Appeal in 1993. From the Basic Law we can see that after 1997 the Court of Final Appeal should consist of five judges. The chief judge will be a Chinese national.

But before 1997, the nationality of the chief judge has not been decided. If the chief judge of the Court of Final Appeal in 1993 is of Chinese nationality there will be no problem in changing the terms of office in 1997. The Hong Kong people often say we can take a "(through train)" to the Court of Final Appeal in 1997. This is beneficial for a smooth and steady transfer of the legislative system in Hong Kong. Finally, it will benefit the stability and prosperity of Hong Kong's economy. On the contrary, if the chief judge is not a Chinese national, according to the Basic Law after 1997 we have to appoint a new person. This will have a definite impact on the continuity of the legal system and exercising procedures.

In short, the establishment of the Court of Final Appeal in 1993 is feasible according to the measures adopted by the present Sino-British Joint Liaison Group. This does not violate the Basic Law and Joint Declaration which were proposed jointly by both Sino-British sides concerning Hong Kong. Therefore, it is acceptable. From the view of long-term benefits for the Hong Kong people, it is fair and reasonable.

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